



0000129386

Transcript Exhibit(s)

Docket #(s): W-01303A-11-0101

AZ CORP COMMISSION
DOCKET CONTROL

2011 SEP -7 P 3:50

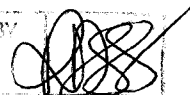
RECEIVED

Exhibit #: A1-A2, CB1, R1, S1-S3

Arizona Corporation Commission

DOCKETED

SEP 7 2011

DOCKETED BY 

NEW APPLICATION
ORIGINAL RECEIVED
BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman

2011 MAR -2 P 3:48

BOB STUMP
Commissioner

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAR - 2 2011

PAUL NEWMAN
Commissioner

DOCKETED BY	ne
-------------	----

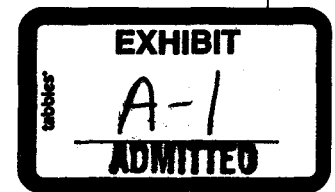
SANDRA D. KENNEDY
Commissioner

BRENDA BURNS
Commissioner

W-01303A-11-0101

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY FOR A WAIVER UNDER
A.A.C. R14-2-806 OR, IN THE
ALTERNATIVE, NOTICE OF INTENT TO
REORGANIZE UNDER A.A.C. R14-2-803

DOCKET NO. W-01303A-11-
APPLICATION



Arizona-American Water Company ("Arizona-American" or "Company") makes this filing in relation to a pending transaction by which Arizona-American's parent company, American Water Works Company, Inc. ("American Water"), a Delaware corporation, will sell all of the issued and outstanding shares of Arizona-American's common stock to EPCOR Water (USA) Inc. ("EPCOR USA"), a Delaware corporation (the "Transaction"). Through this filing, Arizona-American requests that the Arizona Corporation Commission (the "Commission") find that the Transaction is not subject to the jurisdiction of the Commission or, pursuant to AAC R14-2-806, waive compliance with the requirements of A.A.C. R14-2-801 to R14-2-806 ("the Affiliated Interests Rules") with respect to the Transaction. In the alternative, Arizona-American gives notice to the Commission pursuant to A.A.C. R14-2-803 that the Company intends to "reorganize," as such term is defined in the Affiliated Interests Rules, by virtue of American Water's sale of all of the outstanding and issued shares of Arizona-American's common stock to EPCOR USA. Given the fact that the Transaction will not impair Arizona-American's

RECEIVED

2017 MAR -2 P 3:48

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman

BOB STUMP
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION) DOCKET NO. W-01303A-11-
OF ARIZONA-AMERICAN WATER)
COMPANY FOR A WAIVER UNDER) APPLICATION
A.A.C. R14-2-806 OR, IN THE)
ALTERNATIVE, NOTICE OF INTENT TO)
REORGANIZE UNDER A.A.C. R14-2-803)

Arizona-American Water Company ("Arizona-American" or "Company") makes this filing in relation to a pending transaction by which Arizona-American's parent company, American Water Works Company, Inc. ("American Water"), a Delaware corporation, will sell all of the issued and outstanding shares of Arizona-American's common stock to EPCOR Water (USA) Inc. ("EPCOR USA"), a Delaware corporation (the "Transaction"). Through this filing, Arizona-American requests that the Arizona Corporation Commission (the "Commission") find that the Transaction is not subject to the jurisdiction of the Commission or, pursuant to AAC R14-2-806, waive compliance with the requirements of A.A.C. R14-2-801 to R14-2-806 ("the Affiliated Interests Rules") with respect to the Transaction. In the alternative, Arizona-American gives notice to the Commission pursuant to A.A.C. R14-2-803 that the Company intends to "reorganize," as such term is defined in the Affiliated Interests Rules, by virtue of American Water's sale of all of the outstanding and issued shares of Arizona-American's common stock to EPCOR USA. Given the fact that the Transaction will not impair Arizona-American's

1 financial status, prevent Arizona-American from attracting capital on fair and reasonable
2 terms, or impair the ability of Arizona-American to provide safe, reasonable and adequate
3 service, Arizona-American requests that the Commission approve the reorganization
4 without a hearing pursuant to A.A.C. R14-2-803(C).

5 **OVERVIEW OF ARIZONA-AMERICAN AND AMERICAN WATER**

6 1. Arizona-American is a public service corporation engaged in providing
7 water and wastewater utility service in portions of Maricopa, Mohave, and Santa Cruz
8 Counties pursuant to certificates of convenience and necessity granted by the Commission.
9 At the present time, Arizona-American provides water and wastewater service to
10 approximately 158,000 customers (107,000 water customers and 51,000 wastewater
11 customers). The Commission authorized Arizona-American's current, permanent rates
12 and charges in Decision Nos. 72047 and 71410.

13 2. Arizona-American's parent, American Water, is a Delaware corporation
14 headquartered in Voorhees, New Jersey, the stock of which is traded on the New York
15 Stock Exchange.

16 3. Arizona-American is a wholly owned subsidiary of American Water, which
17 owns all of the issued and outstanding shares of common stock in Arizona-American.

18 4. Arizona-American is in compliance with local and state regulatory
19 requirements. Arizona-American is current on all property taxes.

20 **OVERVIEW OF EPCOR**

21 5. EPCOR USA is an indirect wholly owned subsidiary of EPCOR Utilities
22 Inc. ("EPCOR"). EPCOR is a municipally owned Canadian corporation and holding
23 company that builds, owns and operates water and wastewater treatment facilities and
24 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is
25 headquartered in Edmonton, Alberta. It is governed by an independent Board of Directors,
26 and its sole shareholder is the City of Edmonton, Alberta, Canada.

1 6. EPCOR USA is a Delaware corporation and holding company. EPCOR
2 USA was formed to own water and wastewater treatment facilities in the United States.
3 EPCOR USA is headquartered in Phoenix, Arizona. It is governed by an independent
4 Board of Directors that differs from the EPCOR Board of Directors.

5 7. EPCOR is the parent company of a number of subsidiary companies. Its
6 primary operating utility subsidiaries are EPCOR Water Services Inc. ("EPCOR Water"),
7 EPCOR Distribution & Transmission Inc. ("EPCOR Distribution") and EPCOR Energy
8 Alberta Inc ("EPCOR Energy").

9 8. EPCOR Water provides water and wastewater services to over one million
10 people in more than 70 communities and counties across western Canada. EPCOR Water
11 and its predecessors have been providing water to the residents of the City of Edmonton
12 for more than 100 years. EPCOR Water owns and operates seven water treatment
13 facilities in Alberta and British Columbia; operates 17 other water treatment and
14 distribution facilities in Alberta and British Columbia; owns and operates five wastewater
15 treatment facilities in Alberta and British Columbia; and, operates 20 other wastewater
16 treatment and collection facilities in Alberta and British Columbia. Further, EPCOR
17 Water has long-standing business and working relationships with established American
18 companies such as Stantec Consulting, Inc. and PCL Construction, Inc., spanning nearly
19 50 years, including projects where EPCOR Water and Stantec/PCL have jointly built and
20 refurbished numerous water and wastewater facilities.

21 9. EPCOR Water operates and manages those regulated water and wastewater
22 utilities, supplying services to retail and wholesale customers across western Canada.
23 EPCOR Water specializes in all aspects of water and wastewater plant operations and
24 maintenance as well as the provision of full customer support services and operator
25 training. EPCOR Water's facilities in Edmonton encompass two state-of-the-art water
26 treatment plants, a distribution network with approximately 2,200 miles of distribution and
transmission mains, and approximately 17,000 hydrants and 54,000 valves. EPCOR

1 Water's 12 storage reservoir sites have an aggregate capacity of approximately 213 million
2 gallons. EPCOR Energy provides call center and billing services for EPCOR Water's
3 250,000 customers.

4 10. EPCOR Water also operates and maintains the distribution systems in the
5 communities in which it provides water service. EPCOR Water's experience operating
6 these systems will benefit the customers of Arizona-American.

7 11. EPCOR Distribution owns and operates high voltage electric substations and
8 high voltage transmission lines, which form part of the Alberta interconnected electric
9 system and are situated primarily within and around the City of Edmonton. EPCOR
10 Distribution also distributes power to more than 330,000 customers within its distribution
11 service area comprising the City of Edmonton. EPCOR Distribution is regulated by the
12 Alberta Utilities Commission.

13 12. EPCOR Energy provides customer care and rate-setting services to its
14 customers in Alberta as well as certain customer care services to affiliates and third
15 parties. In Alberta's deregulated marketplace, EPCOR Energy provides Regulated Rate
16 Option ("RRO") electricity service to residential and small commercial consumers within
17 the City of Edmonton, several Rural Electrification Association service territories, and the
18 FortisAlberta Inc. service territory. EPCOR Energy also provides billing, collections and
19 contact center services to the City of Edmonton's Waste and Drainage Divisions. EPCOR
20 Energy is also regulated by the Alberta Utilities Commission.

21 13. In July 2009, EPCOR sold substantially all of its power generation assets
22 and related operations to Capital Power Corporation and its subsidiaries, power generation
23 entities created for this purpose. EPCOR plans to eventually sell all or a substantial
24 portion of its ownership interest in the generation subject to market conditions,
25 requirements for capital and other circumstances that may arise in the future, and reinvest
26 the proceeds from such sales in EPCOR's utility infrastructure businesses, including water
and wastewater treatment, and power transmission and distribution.

1 14. EPCOR has been recognized with various awards for EPCOR's civic
2 involvement and community interests, and for its long record of good corporate
3 governance and environmental excellence. EPCOR has been recognized as one of
4 Canada's Top 100 Employers. In 2008, EPCOR was chosen as one of Canada's Top 10
5 Earth Friendly employers. EPCOR also received the 2010 Alberta Venture Best
6 Workplace for the Environmentally Conscious (recognizing companies with best practices
7 and regular contributions in the design and implementation of green initiatives in water,
8 wastewater and power usage in North America), and the 2009 and 2010 Government of
9 Alberta EnviroVista Leadership award (recognizing Alberta industrial and manufacturing
10 facilities and municipal water operations for their environmental excellence). As a
11 company that privately owns and operates water infrastructure in several communities,
12 EPCOR has been recognized by the Canadian Council for Public Private Partnerships for
13 its excellence in service delivery and fiscal management in constructing and operating
14 water and wastewater facilities.

15 15. EPCOR Water's technical expertise includes using advanced and highly
16 automated water treatment systems, ultraviolet disinfection, and remote systems capable of
17 monitoring all sizes of facilities. It also focuses on the industrial sector by providing
18 drinking and process water, as well as wastewater treatment, including reuse water.

19 16. EPCOR Water's water and wastewater operations meet or exceed stringent
20 Canadian federal, provincial, and municipal water quality requirements. In 2008, its
21 Quality Assurance Laboratory scored the highest among 68 labs across Canada and the
22 United States in tests administered by the U.S. Environmental Protection Agency. The
23 majority of the labs were in major United States cities.

24 17. As noted above, EPCOR Water owns and operates seven water treatment
25 facilities and 17 other water treatment and distribution facilities in Canada. Those systems
26 obtain water supplies from both ground water and surface water. EPCOR Water has
experience with surface water systems in the City of Edmonton, which is supplied with

1 water from the North Saskatchewan River. In turn, EPCOR Water has experience with
2 volume and water quality variances, municipal discharges, high turbidity events and a
3 variety of other circumstances relating to use of surface water. In utilizing surface water
4 for operations, EPCOR Water's two state-of-the-art surface water treatment plants in
5 Edmonton have been able to meet or exceed all health and environmental requirements,
6 illustrating that EPCOR Water has substantial expertise and knowledge for operating
7 surface water systems. EPCOR Water's experience in operating and managing surface
8 water systems and treatment plants in Edmonton will benefit customers of Arizona-
9 American, which relies heavily on CAP water in certain districts.

10 18. EPCOR Water has maintained water efficiency best management practices
11 in Canada, which support local and provincial goals for sustainable communities. For
12 example, EPCOR Water implements industry best management practices for water
13 management, including public education efforts focusing on prudent outdoor watering and
14 reducing indoor water use through leak detection and use of water efficient appliances.
15 EPCOR Water also has management practices to maintain and service existing water and
16 wastewater facilities. Through such practices, water main breaks in Edmonton have been
17 reduced to their lowest level since the early 1960s, and EPCOR Water has ensured that the
18 infrastructure is in place to meet the city's water needs long into the future.

19 19. EPCOR Water also has worked closely with the City of Edmonton in
20 development of its new Water Efficient Fixtures Bylaw. The bylaw requires water
21 efficient fixtures (toilets, showerheads, faucets) to be installed in all new development and
22 major renovations that require plumbing permits. As a result of these efforts, Edmonton
23 residents use 15% less water than residents in other fully metered, large Canadian cities.
24 In 2009, Edmonton reported one of the lowest water consumption rates for domestic
25 customers (single family homes and apartments) with an average of 59 gallons per day
26 compared to the average of 70 gallons per day for Canadian residential customers living in
large metered communities. EPCOR recognizes that such best management practices are

1 commonly employed in Arizona, including by Arizona-American, and supports their
2 continued implementation in accordance with Arizona law.

3 20. As noted above, EPCOR Water provides water and wastewater services in
4 over 70 communities in Canada. In the past ten years, EPCOR Water has been subject to
5 only two environmental administrative penalties, both of which were determined to be
6 minor violations. Administrative penalties in Canada are the lowest form of action taken
7 by authorities and do not involve legal proceedings. The first occurred in 2001 and
8 involved a permitting oversight. The second occurred in 2010 relating to an administrative
9 penalty for high finished water turbidity in the Town of Okotoks, Alberta. The Town had
10 contracted with a third party for the construction and commissioning of its water treatment
11 plant prior to EPCOR Water's involvement. The penalty stemmed from a call-out alarm,
12 which did not notify the operator when turbidity limits were exceeded. The subsequent
13 investigation determined that a line of code in the automated monitoring system program
14 was missing and the call-out alarm was not functioning. In both of those cases, EPCOR
15 Water immediately remedied those minor procedural or operational deficiencies.

16 21. EPCOR Water focuses on being "the neighbor of choice" in all communities
17 where it operates facilities. EPCOR believes stakeholder participation is a critical element
18 of a successful utility operation. Stakeholder status is open to any person or group that
19 believes it has a stake in EPCOR's activities. EPCOR Water will conduct stakeholder and
20 customer information sessions relating to the acquisition of Arizona-American and future
21 company operations. Further, EPCOR Water works closely with its environmental and
22 health boards, municipal councils and regulatory agencies in all areas where it conducts
23 business in Canada. EPCOR will continue this operating philosophy in its operation of
24 Arizona-American.

25 22. EPCOR USA's purchase of the stock of Arizona-American is EPCOR's
26 second entry into the water and wastewater utility industry in the United States. This
Transaction is part of EPCOR's business strategy to invest in and become a long-term

owner of Arizona water and wastewater utilities and to provide various utility-related services to municipalities and other governmental entities in Arizona and other states. EPCOR's strategy also includes future opportunities to purchase and operate water and wastewater utilities in Arizona.

23. In Docket No. W-02113A-10-0309, Chaparral City Water Company is seeking Commission approval in relation to a transaction by which American States Water is selling its stock in Chaparral City Water Company to EPCOR USA. In that docket, Commission Staff examined EPCOR USA in detail and recommended approval of the transaction.

THE TRANSACTION BETWEEN EPCOR USA AND AMERICAN WATER

24. On January 23, 2011, EPCOR USA entered into a Stock Purchase Agreement with American Water for the purchase of all outstanding shares of Arizona-American's common stock and of New Mexico-American Water Company Inc.'s common stock (the "Stock Purchase Agreement"). A copy of this Agreement will be provided subject to an appropriate protective agreement.

25. EPCOR USA will purchase the stock of Arizona-American and New Mexico American Water Company for approximately \$470 million, which, subject to adjustments, will be paid to American Water at closing. As part of this transaction, at closing, EPCOR will replace the existing Arizona-American debt extended by American Water with debt extended by EPCOR under comparable terms ("Debt Replacements"). To the extent the replacement of the existing American Water debt with new debt extended by EPCOR (or a third party) requires Commission approval under A.R.S. §40-301 and §40-302, Arizona-American requests such approval in this proceeding.

26. After the Transaction closes, Arizona-American will remain the same legal entity, except that the Company will be a subsidiary of EPCOR USA rather than American

1 Water.¹ The Transaction will not involve the sale, lease, assignment, encumbrance,
2 transfer or conveyance of any of the Company's utility used and necessary plant, assets,
3 revenue or property.

4 27. EPCOR USA does not anticipate that any positions will be eliminated as a
5 result of this Transaction. While it is recognized that staff turnover exists in all
6 companies, it is expected that Arizona-American's current employees will remain with the
7 Company and continue to operate the system after the Transaction closes. This, of course,
8 does not mean that EPCOR USA will not take necessary steps to ensure that employees
9 are putting their best efforts forward to perform their duties and maintain legal and
10 responsible operations. Thus, EPCOR USA intends to continue Arizona-American's
11 operations in a manner that ensures the continuation of safe and reliable water and
12 wastewater utility service.

13 28. The Transaction between EPCOR USA and American Water will not impact
14 the service provided by Arizona-American to its customers. Arizona-American will
15 continue to operate as a public service corporation subject to the Commission's authority
16 and jurisdiction. Arizona-American will continue to provide safe, reliable and adequate
17 water utility service to customers in its service territory under rates and tariffs approved by
18 the Commission.

19 **REQUEST FOR WAIVER UNDER RULE 806**

20 29. Because the Transaction will not impact Arizona-American and its
21 operations, the Company submits that, to the extent the Affiliated Interests Rules may
22 apply to this Transaction, a waiver of such rules is appropriate and in the public interest
23 under A.A.C. R14-2-806 ("Rule 806"). Arizona-American believes that a waiver is
24 appropriate and in the public interest because the Affiliated Interests Rules do not apply to
25 a transaction such as this by and between foreign corporations that are not public service
26

¹ Following the closing of the Transaction, EPCOR USA will change the name of the utility, as the utility will no longer be part of the American Water system. EPCOR USA will notify the Commission following the determination of the new name.

1 corporations and otherwise conduct no business activities in Arizona. *See, e.g., Arizona*
2 *Corp. Comm'n v. Consolidated Stage Co.*, 63 Ariz. 257, 161 P.2d 110 (1945).

3 30. None of the utility plant, revenue or other assets currently owned by
4 Arizona-American will be sold, transferred or encumbered as part of the Transaction.
5 Consequently, Arizona-American's ability to raise capital and its creditworthiness will not
6 be impaired by the Transaction.

7 31. The Transaction will not have a direct impact on Arizona-American's cost of
8 providing utility service. As stated, the Transaction will not cause any change in the
9 manner in which Arizona-American will be operated; the Transaction will not impact the
10 Company's utility service to customers; nor will the Transaction eliminate the
11 Commission's regulatory oversight or ratemaking responsibilities relating to Arizona-
12 American.

13 32. For these reasons, the Company respectfully submits that the nature of the
14 Transaction between EPCOR and American Water is either not subject to the
15 Commission's jurisdiction or, in the alternative, the public interest justifies a waiver of the
16 Affiliated Interests Rules as they relate to this Transaction.

17 **NOTICE OF INTENT – INFORMATION REQUIRED BY RULE 803**

18 33. If the Commission determines that it has jurisdiction over the Transaction
19 and declines to grant a waiver under Rule 806, then the Company requests in the
20 alternative that the Commission approve the Transaction under A.A.C. R14-2-803 ("Rule
21 803"). For this purpose, Arizona-American provides the following information specified
22 in Rule 803.

23 **1. The Names and Business Addresses of the Proposed Officers and Directors of**
24 **the Holding Company.**

25 34. Attached as Exhibit 1 is a list of the names and business addresses of the
26 individuals responsible for the management of EPCOR Utilities Inc., EPCOR Water
Services Inc., EPCOR Water Development (West) Inc., and EPCOR Water (USA), Inc.

1 **2. The Business Purposes for Establishing or Reorganizing the Holding**
2 **Company.**

3 35. The Transaction reflects EPCOR's business plan to enter into the water
4 utility market in Arizona and is part of EPCOR's long-term strategy to invest in and own
5 water and wastewater facilities in the southwestern United States and contract to provide
6 similar services to municipal and other governmental authorities.

7 36. As stated above, EPCOR is a trusted developer and operator of utility
8 infrastructure. The United States provides opportunities to build a larger portfolio of water
9 and wastewater assets. Water scarcity, increasing regulation requiring additional
10 investment in water infrastructure, openness to private participation, a greater focus on
11 quality than on private participation, the presence of business partners who have
12 established a local presence, and significant business opportunity in the southwest United
13 States relative to the Canadian marketplace highlight EPCOR's reasons for pursuing
14 investment in the U.S. market and the purchase of American Water's interest in Arizona-
15 American.

16 **3. The Proposed Method of Financing the Holding Company and the Resultant**
17 **Capital Structure.**

18 37. The purchase price for the Transaction will be funded by cash and debt.
19 EPCOR has substantial assets and business operations in Canada. In 2009, EPCOR had
20 approximately \$2.4 billion (\$Cdn) in revenue from its various operations, and net income
21 of approximately \$125 million (\$Cdn). No material changes to EPCOR's capital structure
22 are expected as a result of the Transaction, and EPCOR will continue to finance capital
23 projects in the same way it has in the past.

24 **4. The Resultant Effect on the Capital Structure of the Public Utility.**

25 38. For purposes of the Transaction, valuation was based on a 60/40 debt-to-
26 equity capital structure. EPCOR does not have any intention to capitalize the operating
 companies using a debt to capitalization ratio that is materially different.

1 **5. An Organization Chart of the Holding Company That Identifies All Affiliates**
2 **and Their Relationships within the Holding Company.**

3 39. An organizational chart identifying EPCOR and its affiliates and subsidiaries
4 is attached as Exhibit 2.

5 **6. The Proposed Method for Allocating Federal and State Income Taxes to the**
6 **Subsidiaries of the Holding Company.**

7 40. Similar to current practice, the EPCOR Water USA group will file a single
8 consolidated US federal return, but state returns will also be filed for each entity.
9 However, taxes will be calculated on a stand-alone basis for entity financial statement and
10 regulatory reporting requirements.

11 **7. The Anticipated Changes in the Utility's Cost of Service and the Cost of**
12 **Capital Attributable to the Reorganization.**

13 41. The Transaction is not anticipated to result in any material changes to the
14 Company's cost of service or its cost of capital. Arizona-American will continue to be
15 operated on a stand-alone basis, and will contract for services, equipment and supplies,
16 and will raise capital as necessary for capital improvements.

17 **8. A Description of Diversification Plans of Affiliates of the Holding Company.**

18 42. EPCOR's business strategy is to own and operate water and wastewater
19 treatment facilities and infrastructure and electrical transmission and distribution facilities
20 in Canada and the United States, and to provide contract services of a like nature to
21 municipal and other governmental entities. This Transaction will not result in any change
22 to EPCOR's strategy. And, as stated above, Arizona-American will be operated on a
23 stand-alone basis.

24 **9. Copies of All Relevant Documents and Filings with the United States Securities**
25 **and Exchange Commission and Other Federal or State Agencies.**

26 43. Relevant filings by American Water with the United States Securities and
 Exchange Commission can be found on American's Water website at

1 <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-sec>. EPCOR Utilities Inc. has
2 continuous disclosure filings with Canadian securities regulators. The filings are available
3 on the SEDAR website at www.sedar.com. Filings by the parties with the New Mexico
4 Public Regulation Commission can be found at www.nmprc.state.nm.us.

5 **10. The Contemplated Annual and Cumulative Investment in Each Affiliate for**
6 **the Next Five Years, In Dollars and as a Percentage of Projected Net Utility**
7 **Plant, and An Explanation of the Reasons Supporting the Level of Investment**
8 **and the Reasons This Level Will Not Increase the Risks of Investments in the**
9 **Public Utility.**

10 44. As stated above, EPCOR owns interests in numerous water, wastewater and
11 electric facilities in Canada. As such, it would be extremely difficult to provide this
12 information due to the large number and diverse nature of the various companies and
13 businesses that will become an “affiliate” of EPCOR under the definition of “affiliate”
14 provided in R14-2-801(1). EPCOR USA has reviewed American Water’s projected
15 capital budget for Arizona-American for the years 2011 through 2013 and intends
16 generally to adopt the projected plan. Under that plan, capital projects totaling
17 approximately \$36.8 million would be constructed over the next three years.² For the
18 reasons previously stated, EPCOR has access to the capital market and will be able to
19 support Arizona-American as appropriate.

20 45. For the reasons previously explained, this Transaction will not increase the
21 risks of investment in Arizona-American. No utility funds will be co-mingled with non-
22 utility funds, nor will any cross-subsidization of non-utility activities take place. Further,
23 the Transaction will not alter the Commission’s existing regulatory oversight and approval
24 authority with respect to Arizona-American’s rates, operations, or transactions with
25 affiliates. For these reasons, the Transaction will not increase the level of risk associated
26 with an investment in Arizona-American.

² Should the transfer be approved, EPCOR USA may wish to include additional projects, substitute or alter the timing of planned projects to ensure that necessary investments to maintain and improve the provision of utility service are undertaken.

1 **11. An Explanation of the Manner in Which the Utility Can Ensure That**
2 **Adequate Capital Will Be Available for the Construction of New Utility Plant**
3 **and For Improvements In Existing Utility Plant At No Greater Cost Than If**
4 **the Utility or Its Affiliate Did Not Organize or Reorganize a Public Utility**
5 **Holding Company.**

6 46. Over the period of 2004 to 2009, EPCOR routinely financed an average of
7 \$400 million (\$Cdn) annually in capital improvements for its water, wastewater and
8 electric facilities. EPCOR maintains a Standard & Poor's credit rating of BBB+ stable for
9 long-term unsecured debt and DBRS Ltd. affirmed its credit rating for EPCOR's long-
10 term unsecured debt at A (low) stable. These ratings reflect EPCOR's ability to assist
11 Arizona-American, if necessary, in obtaining capital.

12 **RELIEF REQUESTED**

13 47. WHEREFORE, for the reasons set forth herein, Arizona-American requests
14 an order from the Commission that (i) declares that the Affiliated Interests Rules, A.A.C.
15 R14-2-801 to R14-2-806, do not apply to the Transaction between EPCOR USA and
16 American Water or, alternatively, (ii) grants a waiver under A.A.C. R14-2-806, with
17 respect to American Water's sale of Arizona-American's outstanding shares of common
18 stock to EPCOR USA.

19 Alternatively, Arizona-American requests that the Commission approve the
20 Transaction under A.A.C. R14-2-803 without a hearing. For the reasons set forth above,
21 the Transaction will not impair Arizona-American's financial status, prevent Arizona-
22 American from attracting capital on fair and reasonable terms, or impair the ability of
23 Arizona-American to provide safe, reasonable and adequate service, and therefore,
24 approval is in the public interest.

25 Arizona-American also requests that the Debt Replacements be approved pursuant
26 to A.R.S. §40-301 and §40-302.

1 RESPECTFULLY SUBMITTED this 2nd day of March, 2011.

2 LEWIS AND ROCA LLP

3 

4 Thomas H. Campbell
5 Michael T. Hallam
6 40 North Central Avenue
7 Phoenix, AZ 85004
8 Attorneys for Arizona-American Water
9 Company

10 ORIGINAL and thirteen (13) copies
11 of the foregoing filed
12 this 2nd day of March, 2011, with:

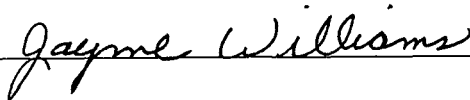
13 The Arizona Corporation Commission
14 Utilities Division – Docket Control
15 1200 W. Washington Street
16 Phoenix, Arizona 85007

17 Copy of the foregoing hand-delivered
18 this 2nd day of March, 2011, to:

19 Steve Olea
20 Utilities Division
21 Arizona Corporation Commission
22 1200 W. Washington Street
23 Phoenix, Arizona 85007

24 Lyn Farmer, Chief Administrative Law Judge
25 Hearing Division
26 Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Legal Counsel
Legal Department
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

VERIFICATION

STATE OF ARIZONA
County of Maricopa

}
} ss:
}

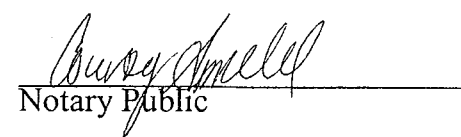
PAUL TOWNSLEY, being first duly sworn upon his oath, deposes and says:

1. I am the President of Arizona-American Water Company, and am authorized to make this verification on behalf of Arizona-American Water Company.

2. I have read the foregoing Application for a Waiver Under A.A.C. R14-2-806 or, In the Alternative, Notice of Intent to Reorganize Under A.A.C. R14-2-803, and I hereby verify that the statements contained therein are true and correct to the best of my information, knowledge and belief.


Paul Townsley

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, on the 2 day of March, 2011, by Paul Townsley, personally known to me or provided to me on the basis of satisfactory evidence to the the person who appeared before me.


Notary Public

My Commission Expires:

June 22, 2014

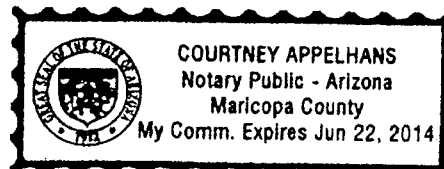


EXHIBIT 1

Exhibit 1

EPCOR Water (USA) Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jeffery Kishel	Stantec Consulting Inc., 2000 South Colorado Boulevard, Suite 2 - 300, Denver, Colorado, 80222
Donald Munson	13417 North 76 Place, Scottsdale, Arizona, 85260

Exhibit 1

EPCOR Water (USA) Inc.

List of Officers

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Stephen Stanley	Senior Vice President, Water Services	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EPCOR Water Development (West) Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

Exhibit 1

EPCOR Water Development (West) Inc.

List of Officers

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Stephen Stanley	Senior Vice President, Water Services	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EPCOR Water Services Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

Exhibit 1

EPCOR Water Services Inc.

List of Officers

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Stephen Stanley	Senior Vice President, Water Services	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EPCOR Utilities Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Hugh Bolton	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Robert Phillips	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sheila Weatherill	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Doug Mitchell	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mike Percy	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
James Carter	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Alex Davidson	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Steve Matyas	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Larry Pollock	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Wesley Twiss	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Helen Sinclair	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Allister McPherson	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

Exhibit 1

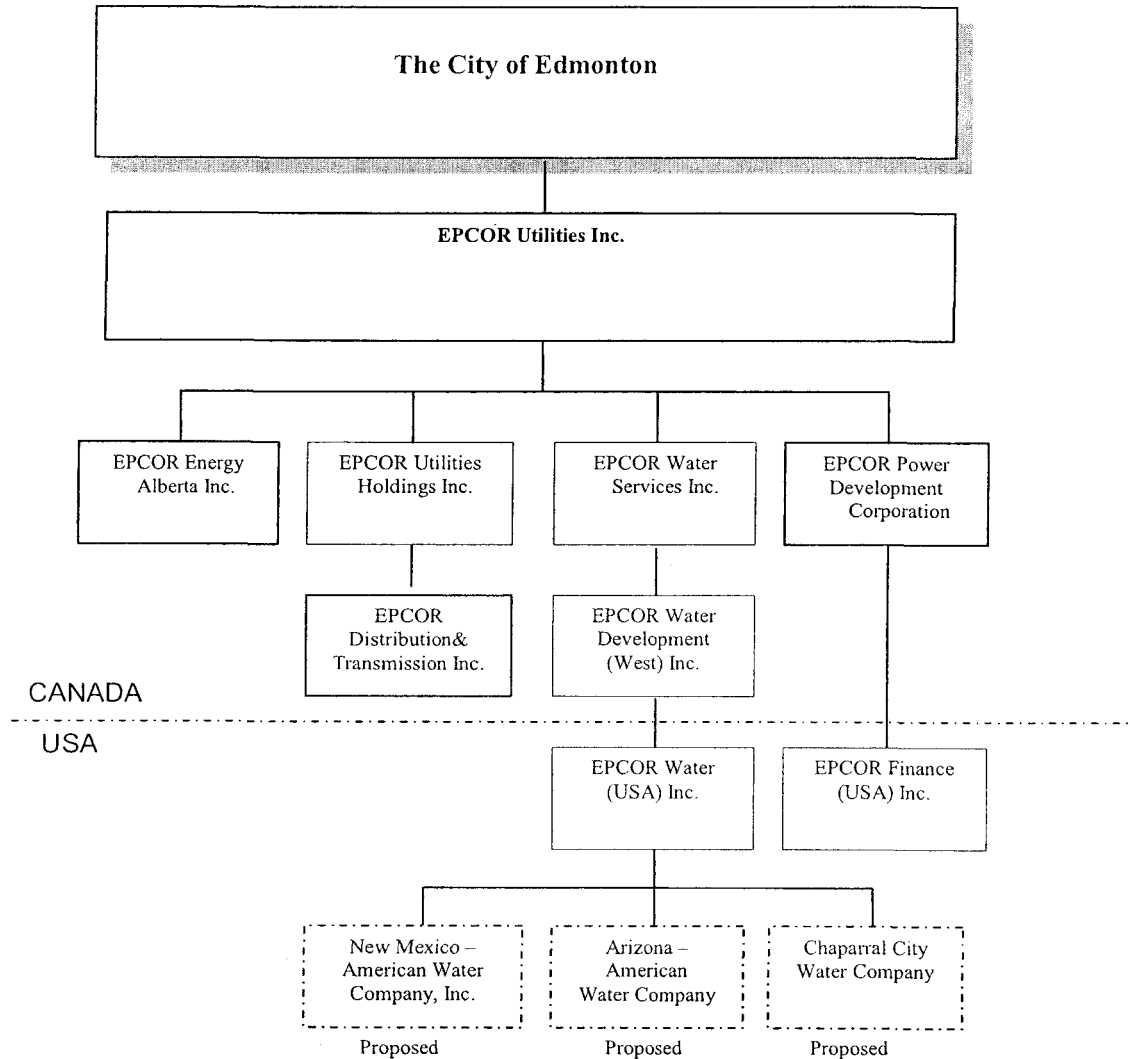
EPCOR Utilities Inc.

List of Officers

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EXHIBIT 2

**EPCOR Utilities Inc.
Corporate Organization
Chart
Exhibit 2**



ORIGINAL

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2011 AUG -5 P 2:51

GARY PIERCE
Chairman

BOB STUMP
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BRENDA BURNS
Commissioner

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

AUG 5 2011

DOCKETED BY

[Signature]

EXHIBIT

A-2
ADMITTED

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY FOR A WAIVER UNDER
A.A.C. R14-2-806 OR, IN THE
ALTERNATIVE, NOTICE OF INTENT TO
REORGANIZE UNDER A.A.C. R14-2-803

DOCKET NO. W-01303A-11-0101

**JOINT RESPONSE TO STAFF
AND INTERVENOR DIRECT
TESTIMONY**

Arizona-American Water Company, Inc. ("the Company") and EPCOR Water (USA), Inc. ("EPCOR USA") hereby provide their joint response to the direct testimony filed by the Utilities Division ("Staff"), the Residential Utility Consumer Office ("RUCO") and Corte Bella Country Club Association ("Corte Bella").

Generally, the Company and EPCOR USA have no objections to or disagreements with the pre-filed testimony of Staff witnesses Becker and Hains and RUCO witness Rigsby concerning the proposed sale of the Company's common stock to EPCOR USA.

These witnesses have accurately described the transaction and the impact on the Company and its ability to furnish safe and reliable water utility service. Mr. Becker and Mr. Rigsby conclude that the proposed transaction satisfies the standard set forth in A.A.C. R14-2-803 for the reorganization of a public utility holding company.¹ The only

¹ Under R14-2-803(C), "the Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service."

1 aspects of the direct testimony filed by Staff and RUCO that require response and
2 discussion are three of the conditions recommended by Staff.

3 First, in Staff's Proposed Condition No. 1, Mr. Becker recommends that the
4 Company and its affiliates "fully cooperate with Staff in any future inquiries or requests
5 for information and/or documents regarding any transactions that Staff determines might
6 have some effect, direct or indirect, on the Company's operational or financial health."
7 (Becker at 5.) The Company and EPCOR USA acknowledge that the Commission has
8 been delegated broad regulatory and investigatory authority with respect to public service
9 corporations. Under A.A.C. R14-2-804, for example, the Commission has the power to
10 review and approve certain transactions between a public service corporation and its
11 affiliates.

12 The proposed condition thus appears to require that the Company continue to
13 comply with existing law and agency regulations. The Company and EPCOR USA intend
14 to cooperate with the Commission. As Staff notes, the Company and EPCOR have been
15 cooperative in this proceeding. (Becker at 5). We understand that this condition would
16 not require the Company or EPCOR USA to waive its legal right to raise legitimate
17 objections to information requests. Consequently, if the condition is adopted by the
18 Commission, the language should be modified to clarify that it does not override the
19 Company's or its affiliates' rights to object to inquiries or requests for information and to
20 argue for the confidentiality of submitted information in an appropriate case.

21 Second, in Staff's Proposed Condition No. 3, Mr. Becker recommends that the
22 Company be ordered "to maintain its quality of service, including, but not limited to, that
23 the number of service complaints should not increase, that the response time to service
24 complaints not increase, and that service interruptions should not increase as a result of the
25 reorganization." (Becker at 7.) As a general matter, this condition is not problematic.
26 EPCOR USA intends to ensure that the Company continues to provide high quality
service, high levels of customer care, and the highest levels of system reliability and

1 adequacy. And, it is clearly appropriate for the Commission to make certain that the
2 quality of service is not adversely affected by the transaction. However, the standards
3 employed in this condition are uncertain and could lead to confusion later.

4 The fact that a service complaint is filed does not necessarily mean that the quality
5 of service has deteriorated. Likewise, a service interruption may not indicate a problem
6 with the quality of service or the system's reliability, but instead may be caused by
7 circumstances beyond the Company's and EPCOR USA's control. Therefore, the
8 Company and EPCOR USA suggest that this recommendation be clarified to more
9 precisely define the events that would be used to determine if a change in the quality of
10 service has occurred or to recognize the ability of the Company to demonstrate that certain
11 customer complaints or service interruptions may not evidence a decline in quality of
12 service.

13 Third, in Staff's Proposed Condition No. 4, Mr. Becker recommends that the
14 Company provide Staff with the terms of any long-term debt that will replace the current
15 short-term debt. Staff will then make recommendations to the Commission for its
16 consideration. (Becker at 9). The Company wants to clarify Condition No. 4, and
17 particularly how this condition will be implemented in conjunction with the two other debt
18 replacement conditions (Conditions 5 and 6).

19 After discussion with Staff, the Company's understanding is as follows:

- 20 1. Staff is recommending that, as part of the decision in this proceeding, the
21 Commission approve all debt replacement if the new debt reflects substantially
22 the same terms as the debt that presently exists.
- 23 2. If the Company replaces the current short-term debt with long-term debt, the
24 new long-term debt must be approved by the Commission. That approval may
25 be given in this docket after the Company files the details of the replacement
26 debt. This approval may be given either concurrently with the sale approval or
subsequent to an approval of the sale in a separate decision issued in this docket.

1 With regard to Corte Bella's testimony, the Company intends to address the
2 concerns raised by Mr. Rials' in the company's testimony at the hearing. Mr. Rials'
3 testimony is based on the erroneous assumption that EPCOR USA intends to change the
4 plans and management of the Company. And, as Mr. Townsley will confirm during the
5 hearing, the "near term plans" of the Company will remain the same.

6 As indicated, the Company and EPCOR USA have no serious disagreements with
7 the Staff and RUCO direct testimony, and generally do not take issue with the conditions
8 they have recommended. The foregoing suggestions are intended to ensure that there is no
9 subsequent confusion over standards and requirements imposed on the Company if the
10 conditions recommended by Staff are adopted by the Commission.

11 RESPECTFULLY SUBMITTED this 5th day of August, 2011.

12
13 LEWIS AND ROCA LLP

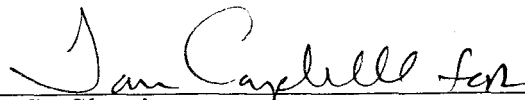
14 

15 Thomas H. Campbell
16 Michael T. Hallam
17 40 North Central Avenue
18 Phoenix, AZ 85004

19 Attorneys for Arizona-American Water
20 Company

21 AND

22 FENNEMORE CRAIG, PC

23 

24 Jay L. Shapiro
25 Patrick J. Black
26 3003 N. Central Avenue, Suite 2600
Phoenix, AZ 85012
Attorneys for EPCOR Water (USA), Inc.

ORIGINAL and thirteen (13) copies
of the foregoing filed
this 5th day of August, 2011, with:

1 The Arizona Corporation Commission
Utilities Division – Docket Control
2 1200 W. Washington Street
Phoenix, Arizona 85007

3 Copy of the foregoing hand-delivered
4 this 5th day of August, 2011, to:

5 Steve Olea
Utilities Division
6 Arizona Corporation Commission
1200 W. Washington Street
7 Phoenix, Arizona 85007

8 Teena Jibilian, Administrative Law Judge
Hearing Division
9 Arizona Corporation Commission
1200 W. Washington Street
10 Phoenix, Arizona 85007

11 Charles Hains
Legal Department
12 Arizona Corporation Commission
1200 W. Washington Street
13 Phoenix, Arizona 85007

14 Copy of the foregoing mailed
15 this 5th day of August, 2011, to:

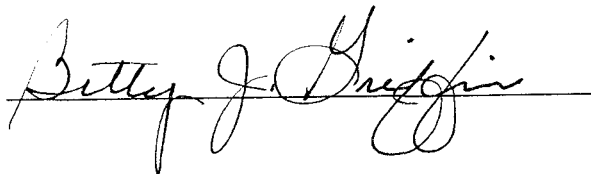
16 Daniel Pozefsky
RUCO
17 1110 W. Washington, Suite 220
Phoenix, AZ 85007

18 Robert Rials, President
19 Corte Bella Country Club
Association, Inc.
20 22155 N. Mission Drive
Sun City West, AZ 85375

21 Jay L. Shapiro
22 Patrick J. Black
Fennemore Craig, PC
23 3003 N. Central Ave., Suite 2600
Phoenix, AZ 85012
24 Attorneys for EPCOR Water (USA), Inc.

25 Andrew M. Miller
Town Attorney
26 Town of Paradise Valley
6401 E. Lincoln Drive
Paradise Valley, AZ 85253

1 Maher M. Hazine
2 39506 N. Daisy Mountain Dr.
3 Suite 122-488
4 Anthem, AZ 85086

5 
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE, Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE APPLICATION
9 OF ARIZONA-AMERICAN WATER
10 COMPANY FOR A WAIVER UNDER A.A.C.
11 R14-2-806 OR, IN THE ALTERNATIVE,
12 NOTICE OF INTENT TO REORGANIZE
13 UNDER A.C.C. R14-2-803

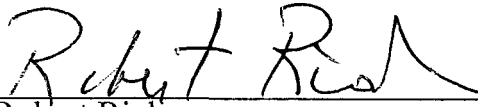
DOCKET NO. W-01303A-11-0101

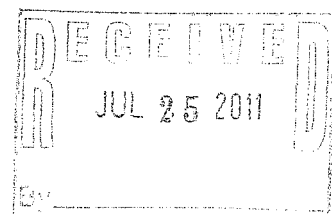
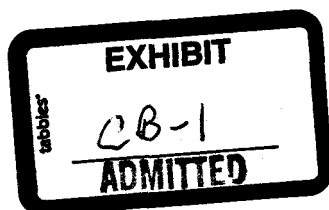
**NOTICE OF FILING DIRECT
TESTIMONY OF ROBERT RIALS ON
BEHALF OF CORTE BELLA
COUNTRY CLUB ASSOCIATION,
INC.**

14
15 Corte Bella Country Club Association, Inc., by and through its Board President,
16 hereby files the direct testimony of Robert Rials. The direct testimony is attached hereto as
17 *Exhibit A.*

18
19 DATED this 22nd day of July 2011.
20

21 CORTE BELLA COUNTRY CLUB
22 ASSOCIATION, INC.

23
24 
25 Robert Rials
26 President, Board of Directors
27 22155 North Mission Drive
28 Sun City West, Arizona 85375



1 **ORIGINAL** and 13 copies filed
2 this 22nd day of July 2011 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 **COPIES** of the foregoing mailed
8 this 22nd day of July 2011 to:

9 Daniel W. Pozefsky, Chief Counsel
10 Residential Utility Consumer Office
11 1110 West Washington, Suite 220
12 Phoenix, Arizona 85007

13 Andrew M. Miller
14 Attorney for the Town of Paradise, Arizona
15 6401 East Lincoln Drive
16 Paradise Valley, Arizona 85253

17 Jay L. Shapiro
18 Patrick J. Black
19 FENNEMORE CRAIG, P.C.
20 3003 North Central Avenue, Suite 2600
21 Phoenix, Arizona 85012

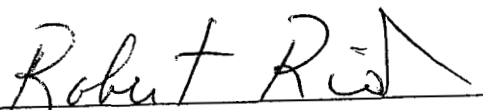
22 Maher M. Hazine
23 39506 N. Daisy Mountain Dr., Suite 122-488
24 Anthem, Arizona 85086 Sun

25 Steve Olea, Director
26 Arizona Corporation Commission, Utilities Division
27 1200 West Washington Street
28 Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Arizona Corporation Commission, Legal Division
1200 West Washington Street
Phoenix, Arizona 85007

...

1 Thomas H. Campbell
Michael T. Hallam
2 LEWIS & ROCA, LLP
3 40 N. Central Avenue
4 Phoenix, Arizona 85004

5 
6

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

EXHIBIT A

DIRECT TESTIMONY OF ROBERT RIALS

ON BEHALF OF

CORTE BELLA COUNTRY CLUB ASSOCIATION, INC.

1
2 **I.**

INTRODUCTION AND QUALIFICATIONS

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
4 **TELEPHONE NUMBER.**

5 **A.** My name is Robert E. Rials. My business address is 22155 North Mission
6 Drive, Sun City West, Arizona, 85375 and my business phone is 623-328-5068.

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 **A.** I am retired but presently provide my time and skills to the Corte Bella Country
9 Club Association, Inc. ("Corte Bella") as President of the Board of Directors.

10 **Q. PLEASE DESCRIBE CORTE BELLA.**

11 **A.** Corte Bella is a non-profit corporation that operates as a Homeowners'
12 Association under the Planned Community Act. Corte Bella is an age-restricted
13 community that contains approximately 1,650 homes within Sun City West.

14 **Q. WHAT ARE YOUR PRIMARY RESPONSIBILITIES AT CORTE**
15 **BELLA?**

16 **A.** As President of the Board of Directors, the Bylaws specify "the President shall
17 be the chief executive officer of the Association and shall exercise general
18 supervision and direction of the affairs of the Association. The President shall
19 have the authority to directly administer all matters not expressly delegated or
assigned to the managing agent or others."

20 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
21 **EDUCATION.**

22 **A.** I became the Chair of the Transition Committee for Corte Bella in 2007 and as
23 Pulte was preparing to sell the remaining homes I worked to ensure a smooth
24 transition between the developer and Corte Bella residents as the community
25 evolved into a resident HOA Board. I was elected to the Board of Directors in
26 the initial election in 2007 and was selected by the Board of Directors as
President. I have held that position for the last 3 and half years.

27 Prior to re-locating to Corte Bella I worked in the telecommunication industry. I
28 was employed by General Telephone and Electronics for 35 years and at
retirement I was a Manger in the GTE - California Planning and Engineering

1 Department. My position had the Planning responsibilities for short and long
2 term plans for both residential and business customers. My responsibility was to
3 plan and engineer plant and infrastructure ensuring customer service demands
4 were being met as established by the California Utilities Commission. My
5 Department was responsible for over 1.5 million customers along the California
6 coast stretching from Long Beach through Santa Monica to Santa Barbara. The
7 annual budget was over 100 million dollars and laid the foundation for all infra-
8 structure. Planning criteria was based on "just in time provisioning" driven by
9 permits and forecast data. Equipment selection was determined through a "least
10 cost strategy". Planning alternatives and economic considerations were based
11 on financial analysis using Net Present Value (NPV) as the recommended and
12 approved method of selection. I hold a Bachelor of Science degree in Business
13 Administration from Redlands University.

14 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

15 **A.** No.

16 **II. SCOPE AND PURPOSE OF TESTIMONY**

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A.** The purpose of my testimony is to set forth Corte Bella's concern / interest
19 regarding the proposed acquisition of Arizona-American Water Company
20 ("AAWC") by EPCOR. All of Corte Bella's water and waste water service is
21 provided by AAWC.

22 **Q. WHAT IS CORTE BELLA'S MAIN CONCERN?**

23 **A.** Corte Bella's main concern is whether the proposed acquisition is in the best
24 interest of the customer and, more specifically, whether the acquisition will
25 result in a future rate application with the Commission to increase water and
26 wastewater rates.

27 **Q. WHY IS CORTE BELLA CONCERNED ABOUT A FUTURE RATE INCREASE?**

28 **A.** Corte Bella is currently facing a proposed wastewater rate increase of 139.7%
through a potential deconsolidation of the Anthem / Agua Fria Wastewater
District in Docket No. WS-01303A-09-0343. Corte Bella is also facing a
proposed water rate increase of 82.9% in Docket No. W-01303A-10-0448.

1 These rate increases will have a drastic impact on the residents of Corte Bella –
2 most of which are on fixed incomes.

3 **Q. WHAT ADDITIONAL INFORMATION DO YOU BELIEVE EPCOR**
4 **SHOULD PROVIDE BEFORE THE COMMISSION CAN MAKE A**
5 **FINAL DETERMINATION ON THE ACQUISITION?**

6 EPCOR should provide additional information regarding its near-term plan. The
7 Application provides limited explanation on the near-term planning strategy for
8 the Arizona-American properties. The Application references EPCOR's efforts
9 in operations and maintenance, inclusive of water safety and treatment,
10 maintaining and servicing existing facilities, customer support services, and
11 technical expertise in automated systems, ultraviolet disinfection and remote
12 monitoring. However, no reference is made to EPCOR's near-term planning of
the seven (7) Districts and approximately 158,000 customers. The customers
served by the EPCOR acquisition should have an understanding of the EPCOR
planning process and vision for the near term.

13 EPCOR should also provide information on how the acquisition will improve
14 cost structure through the synergism of two companies.

15 Additionally, Arizonans should expect an implementation strategy that will
16 effectively plan and therefore implement plant and infrastructure on a cost
effective basis with "just in time" capability.

17 **Q. WHY SHOULD EPCOR HAVE TO PRODUCE A NEAR-TERM PLAN**
18 **WHEN THE COMPANY IS WELL ESTABLISHED IN THE WATER**
19 **UTILITY INDUSTRY?**

20 **A.** When determining water applications, the customer views our Commission as
21 serving the public interest by protecting consumers and ensuring the provision
22 of safe, reliable utility service and infrastructure at reasonable rates, with a
commitment to environmental enhancement and a healthy Arizona economy.

23 This acquisition requires the question to be asked: What is EPCOR's near term
24 planning strategy of the Arizona-American properties? EPCOR has made
25 reference to its holdings in this Application. When examining the Canadian
26 holdings on the website (www.epcor.com), the written description of the
27 properties are given in two Provinces, Alberta and British Columbia. The word
"planning" and the skills of planning never once appear in the description of the
28 subject properties. However, planning is an integral part of managing a
business and defining the near term plans would provide the residents and

Commission the understanding required to act on the Application in an informed manner.

III. CONCLUSION

Q. WHAT DO YOU BELIEVE IS THE MOST IMPORTANT FACTOR FOR THE COMMISSION TO CONSIDER AS PART OF ITS FINAL DETERMINATION ON THE ACQUISITION?

A. The level of transparency by EPCOR to its 158,000 customers. EPCOR should provide its near-term plan and its future considerations in planning the Districts in a cost-effective manner. The simplest method for EPCOR to ensure a level of confidence is to share its plans, its short-term goals, and its ability to improve the water utility in Arizona for all its customers.

The present submission is a basic Application answering the most basic questions. The Arizona districts are located where water has become a key and limited resource to both resident and business and sound planning and an EPCOR explanation is paramount. The question asked and the explanation to be given are best provided prior to the transition of ownership.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-11-0101

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JULY 22, 2011



1
2
3
4
5
6
7

TABLE OF CONTENTS

INTRODUCTION.....	1
BACKGROUND	6
PROPOSED REORGANIZATION.....	9
ANALYSIS OF PROPOSED REORGANIZATION	10
RECOMMENDATION	18
APPENDIX 1 – Qualifications of William A. Rigsby, CRRA	

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please describe your qualifications in the field of utilities regulation and
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 ("CRRRA") by the Society of Utility and Regulatory Financial Analysts
17 ("SURFA"). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to my direct testimony further describes my educational
20 background and also includes a list of the rate cases and regulatory
21 matters that I have been involved with.

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of the proposed sale of all of the issued and
4 outstanding shares of common stock of Arizona-American Water
5 Company ("AAWC" or "Company") from American Water Works Company,
6 Inc. ("American Water") to EPCOR (USA) Inc. ("EPCOR USA"). AAWC
7 filed an application for a waiver under A.A.C. R14-2-806 or in the
8 alternative, notice of intent to reorganize under A.A.C. R14-2-803
9 ("Application" or "Proposed Reorganization") with the Arizona Corporation
10 Commission ("ACC" or "Commission") on March 2, 2011.

11
12 Q. Have you filed testimony on AAWC in prior cases before the ACC?

13 A. Yes. I have testified as a witness for RUCO on cost of capital and other
14 ratemaking issues in a number of prior rate case proceedings on AAWC's
15 various water and wastewater districts.¹ I also recommended, as an ACC
16 Staff Senior Rate Analyst, that the Commission reauthorize a revolving
17 line of credit for the Paradise Valley Water District². Most recently I
18 testified in a current AAWC rate case involving the Company's Agua Fria,
19 Havasu and Mohave Water Districts.³ I am also presently involved with
20 AAWC's pending Anthem/Agua Fria Wastewater deconsolidation filing.

¹ Docket Numbers WS-01303A-06-0491, WS-01303A-06-0403, W-01303A-06-0014, W-01303A-05-0405 et al., W-01303A-08-0227 et al., and Docket No. W-01303A-10-0448

² Docket No. W-01335A-00-0327

³ Docket No. W-01303A-09-0343 et al.

1 In addition to the rate increase and financing proceedings cited above, I
2 have also filed testimony in cases that involved a request for an arsenic
3 cost recovery surcharge for AAWC's Paradise Valley District. I further
4 testified on AAWC's request for an increase in hook-up fees to fund the
5 construction of the Company's White Tanks Regional Water Treatment
6 Plant located in the Agua Fria District⁴ which AAWC is seeking rate base
7 treatment and cost recovery for in the Company's rate case proceeding
8 now before the Commission.

9

10 Q. Have you filed testimony on EPCOR USA in prior cases before the ACC?

11 A. Yes. As a witness for RUCO, I recommended that the Commission
12 approve the sale of Chaparral City Water Company from American States
13 Water Company to EPCOR USA. The Commission approved the sale in
14 Decision No. 72259, dated April 7, 2011, subject to the conditions
15 recommended by both ACC Staff and RUCO.

16

17 Q. Please describe your analysis of the Proposed Reorganization requested
18 by AAWC.

19 A. My analysis relies on information provided in both the Company's
20 Application and The Value Line Investment Survey ("Value Line"), an
21 independent investment advisory service. I also relied on information that
22 was obtained from responses to data requests issued by ACC Staff,

⁴ Docket No. W-01303A-05-0718

1 RUCO and other intervenors to the proceeding. I studied information
2 obtained over the course of discovery in order to ascertain whether or not
3 the Proposed Reorganization is in the public interest and meets the
4 requirements for reorganization pursuant to A.A.C. R14-2-803(C).
5

6 Q. What is AAWC seeking in its Application?

7 A. According to AAWC's Application, the Company is seeking a waiver from
8 the Commission's Public Utility Holding Companies and Affiliated Interest
9 rules as set forth in A.A.C. R14-2-806. In the alternative, AAWC gives
10 notice to the Commission of its intent to reorganize pursuant to A.A.C.
11 R14-2-803 by virtue of American Water selling all of the outstanding and
12 issued shares of AAWC's common stock to EPCOR USA. On May 20,
13 2011, the Company withdrew its request for waiver under A.A.C. R14-2-
14 806 and is proceeding solely on the second option for review and approval
15 of its sale of shares to EPCOR USA under A.A.C. R14-2-803.
16

17 Q. What is the standard that you relied on in determining whether or not the
18 ACC should approve AAWC's request to reorganize under A.A.C. R14-2-
19 803?

20 A. The standard that I relied on is found in A.A.C. R14-2-803(C) which states
21 the following:

22 At the conclusion of any hearing on the organization or reorganization of
23 a utility holding company, the Commission may reject the proposal if it
24 determines that it would impair the financial status of the public utility,
25 otherwise prevent it from attracting capital at fair and reasonable terms,

1 or impair the ability of the public utility to provide safe, reasonable and
2 adequate service.
3

4 Q. Briefly summarize the recommendations that you are making in your
5 testimony.

6 A. Based on the results of my analysis, I am recommending that the ACC
7 approve AAWC's request on two conditions. The first condition is that no
8 acquisition costs related to the transfer of ownership between American
9 Water and EPCOR (USA) be passed on to Arizona ratepayers. The
10 second condition is that no acquisition premium (i.e. the difference
11 between EPCOR USA's purchase price of AAWC's outstanding and
12 issued shares of common stock and the book value of AAWC at the time
13 the transaction is finalized) be recovered by EPCOR USA in any future
14 rate case decisions.

15
16 My recommendation is based on my belief that EPCOR USA is a fit and
17 proper entity whose ownership of AAWC will not impair the financial status
18 of the Company, or prevent AAWC from attracting capital at fair and
19 reasonable terms, or impair the ability of AAWC to provide safe,
20 reasonable and adequate service. For the reasons stated above, I am
21 recommending that the Commission approve AAWC's requested
22 reorganization subject to the two conditions that I described above and will
23 address later in my testimony.
24

1 **BACKGROUND**

2 Q. Please provide a brief description of AAWC.

3 A. According to the Company's Application, AAWC is a public service
4 corporation that provides water and wastewater utility service in portions
5 of Maricopa, Mohave and Santa Cruz counties to approximately 158,000
6 customers.⁵ The Company serves customers in Commission-approved
7 certificated areas in communities, or portions of communities, such as
8 Paradise Valley, Sun City, Sun City West, Sun City Grand, Surprise,
9 Bullhead City, Lake Havasu City and Tubac. AAWC's current rates and
10 charges were authorized in Decision No. 72047, dated January 6, 2011,
11 and Decision No. 71410, dated December 8, 2009. The Company stated
12 on page 2 of its Application that AAWC is currently in compliance with
13 local and state regulatory requirements⁶ and is also current on all property
14 taxes owed.

15
16 Q. Does AAWC have any major pending matters before the ACC besides this
17 filing?

18 A. Yes. As I stated earlier in my testimony, AAWC currently has two other
19 major matters pending before the Commission which include the following:
20
21

⁵ 107,000 water customers and 51,000 wastewater customers

⁶ AAWC provided evidence of compliance in the Company's responses to ACC Staff's first and second data requests issued on March 15, 2011 and March 30, 2011 respectively.

<u>Case Name</u>	<u>Docket No.</u>
Agua Fria, Mohave, Havasu Rate Case	Docket No. W-01303A-10-0448
Anthem Aqua Fria Wastewater District Deconsolidation	Docket No. W-01303A-09-0343

Q. Please provide a brief description of AAWC's parent company, American Water.

A. American Water is a Delaware corporation, based in Voorhees, New Jersey, that is publicly traded on the New York Stock Exchange ("NYSE"). According to Value Line, American Water (NYSE symbol AWK) is the largest investor-owned water and wastewater utility in the United States and provides services to over 15 million people in over 30 states and Canada. American Water's non-regulated business subsidiaries assist municipalities and military bases with maintenance and upkeep. American Water's regulated operations made up over 89% of 2010 revenues. New Jersey is American Water's biggest market and accounts for over 19% of its total revenues. American Water has roughly 7,000 employees. New York-based investment company BlackRock, Inc., owns 6.9% of the common stock outstanding. Officers and directors own less than 1% of the corporation. According to the Company's Application, American Water owns all of the issued and outstanding shares of common stock in AAWC.

Q. Please describe EPCOR USA.

A. EPCOR USA is an indirect, wholly owned subsidiary of EPCOR Utilities Inc. ("EPCOR"). AAWC's Application provides an extensive description of

1 EPCOR and states that EPCOR is a municipally owned Canadian
2 corporation and holding company that builds, owns and operates water
3 and wastewater treatment facilities. EPCOR also builds, owns and
4 operates infrastructure and electrical transmission and distribution
5 networks in Canada. EPCOR is headquartered in Edmonton, Alberta, and
6 is governed by an independent board of directors. Its sole shareholder is
7 the City of Edmonton, Alberta, Canada.

8
9 According to AAWC's Application, EPCOR's primary operating
10 subsidiaries are EPCOR Water Services Inc. ("EPCOR Water"), EPCOR
11 Distribution & Transmission Inc. ("EPCOR Distribution") and EPCOR
12 Energy Alberta Inc. ("EPCOR Energy"). Since July of 2009, EPCOR has
13 sold substantially all of its ownership interest in Capital Power with the
14 intent of using the proceeds to finance needed capital improvement
15 projects in EPCOR's various utility infrastructure businesses that provide
16 water, wastewater treatment, power transmission and power distribution
17 services.

18
19 AAWC's Application states that EPCOR has extensive technical
20 experience in the operation and maintenance of water and wastewater
21 facilities that provide service to over one million people in more than 70
22 communities and counties located in Western Canada.

PROPOSED REORGANIZATION

Q. Why is EPCOR USA buying AAWC?

A. According to AAWC's Application, EPCOR USA sees this transaction as the second step, with the acquisition of Chaparral City Water Company, of an overall business strategy to invest in, and become a long-term owner of water and wastewater utilities in Arizona and other states. EPCOR USA's business strategy also includes the provision of various utility-related services to municipalities and other governmental entities located in Arizona and other states.

Q. Briefly describe the Proposed Reorganization.

A. AAWC's Application states that on January 23, 2011, EPCOR USA entered into a stock purchase agreement with American Water to purchase, using a combination of cash and debt, all of the outstanding shares of both AAWC's and New Mexico-American's ("NMAWC") common stock for approximately \$470 million subject to adjustments ("Stock Purchase Agreement"). At the time of closing, EPCOR USA will pay the agreed upon sum to American Water in exchange for AAWC's and NMWC's utility plant assets, revenue and other property which will not, be sold, leased assigned or encumbered as a part of the transaction ("Transaction") described under the Proposed Reorganization. As part of the Transaction, any existing AAWC debt extended by American Water will be replaced with debt extended by EPCOR under comparable terms.

1 AAWC is requesting approval of the Proposed Reorganization to the
2 extent that the replacement of the existing AAWC debt, with new debt
3 extended by EPCOR (or a third party), requires Commission approval
4 under A.R.S. §40-301 and §40-302. At the close of the Transaction,
5 AAWC will remain as the same legal entity that it was prior to the
6 Transaction, except that it will now be a subsidiary of EPCOR USA as
7 opposed to a subsidiary of American Water. AAWC states that following
8 the closing of the Transaction, EPCOR USA will change the name of the
9 Company since it will no longer be a part of the American Water system
10 and that EPCOR USA will notify the Commission following a determination
11 of what the new name of the Company will be. According to the
12 Company's Application, EPCOR USA does not anticipate that any
13 positions will be eliminated as a result of the Transaction.

14
15 **ANALYSIS OF PROPOSED REORGANIZATION**

16 Q. Has RUCO had the opportunity to study the Proposed Reorganization of
17 AAWC?

18 A. Yes.

19
20 Q. Does RUCO believe that the Proposed Reorganization is in the public
21 interest?

22 A. Yes.

1 Q. Why does RUCO believe that the Proposed Reorganization is in the public
2 interest?

3 A. RUCO believes that the Proposed Reorganization meets the standard
4 found in A.A.C. R14-2-803(C). Based on RUCO's analysis, the Proposed
5 Reorganization will not impair the financial status of AAWC, nor will it
6 prevent the Company from attracting capital at fair and reasonable terms,
7 or impair the ability of AAWC to provide safe, reasonable and adequate
8 service.

9

10 Q. Why does RUCO believe that the Proposed Reorganization will not impair
11 the financial status of AAWC?

12 A. Under the Proposed Reorganization, with the exception of a change in
13 name, AAWC will remain the same entity that it currently is. As explained
14 earlier, none of the Company's shares of stock, utility plant, current or
15 future revenue streams or other assets will be encumbered or pledged as
16 security as a result of the transaction. AAWC will be operated on a stand-
17 alone basis and will continue to have the ability to earn a return on its
18 existing assets and use all of the Company's operating revenues and cash
19 flows to cover its operating expenses and existing debt obligations.

20

21

22 ...

23

1 Q. Will the Proposed Reorganization prevent AAWC from attracting capital at
2 fair and reasonable terms?

3 A. No. AAWC's capital structure will not change as a result of the transaction
4 and the Company's ability to attract capital at fair and reasonable terms
5 will be no different than it was prior to the transaction. Under the
6 Proposed Reorganization AAWC's ultimate parent will be an entity that
7 has, between 2004 and 2009, routinely financed an average of \$400
8 million annually in capital improvements for its water, wastewater and
9 electric facilities. According to the Company's application and EPCOR's
10 website⁷, EPCOR maintains a credit rating of BBB+ from Standard &
11 Poor's and A (low) stable from Dominion Bond Rating Service Ltd. on
12 long-term unsecured debt. Hence, AAWC would be owned by a large
13 entity that has the ability to assist the Company in obtaining needed
14 capital to finance infrastructure improvements. RUCO believes that, for all
15 practical purposes, the Proposed Reorganization is essentially no different
16 from the one recently approved by the Commission in which the
17 ownership of Chaparral City Water Company was transferred from
18 American States Water Company, Inc. to EPCOR USA.

19

20

21 ...

22

⁷ <http://www.epcor.ca/en-ca/about-epcor/investor-information/Pages/default.aspx>

1 Q. What is the current capital structure of EPCOR USA's ultimate parent
2 EPCOR?

3 A. According to EPCOR's consolidated balance sheet for the period ended
4 December 31, 2010, EPCOR's end-of-year capital structure for 2010 was
5 comprised of approximately 37.0 percent long-term debt and 63.0 percent
6 common equity. This reflected an improvement in EPCOR's equity
7 position over the previous end-of-year capital structure of 41 percent long-
8 term debt and 59 percent common equity.

9
10 Q. Why does RUCO believe that the Proposed Reorganization will not impair
11 the ability of AAWC to provide safe, reasonable and adequate service?

12 A. As explained above, the absence of any financial harm to AAWC, as a
13 result of the Proposed Reorganization, will not hinder the Company's
14 ability to continue to operate as it has prior to the change of ownership
15 and to continue to meet required water quality standards. RUCO also
16 believes that EPCOR, which will become AAWC's ultimate parent under
17 the terms of the Stock Purchase Agreement, is a fit and proper entity that
18 has both the experience and expertise to operate a regulated water
19 provider such as AAWC.

20
21
22 ...
23

1 Q. Does RUCO believe that EPCOR has the ability to provide safe,
2 reasonable and adequate service to AAWC's ratepayers?

3 A. Yes. According to the Company's Application, EPCOR's water and
4 wastewater operations presently meet or exceed stringent Canadian
5 federal, provincial, and municipal water quality requirements. AAWC
6 further stated in its Application that in 2008, EPCOR's Quality Assurance
7 Laboratory scored the highest among 68 labs across Canada and the
8 United States in tests administered by the U.S. Environmental Protection
9 Agency and that the majority of the labs were in major United States cities.

10

11 Q. Does RUCO have any first hand experience with EPCOR that would
12 support RUCO's belief that it is a fit and proper entity that has both the
13 experience and expertise to operate a regulated water provider such as
14 AAWC?

15 A. Yes. During the Chaparral City Water Company reorganization
16 proceeding, RUCO's staff members had the opportunity to meet with Mr.
17 James McKee from EPCOR who satisfactorily addressed questions
18 concerning the two environmental administrative penalties, both of which
19 were determined to be minor violations by authorities and did not involve
20 legal proceedings, that are described on page 7 of AAWC's Application.
21 EPCOR later provided RUCO with additional information on its experience
22 related to surface water treatment and arsenic removal. This experience
23 is highly relevant to the operation of AAWC's White Tanks water treatment

1 facility noted earlier and arsenic removal plant in the Company's Agua
2 Fria, Paradise Valley, Sun City West and Tubac Water Districts. EPCOR
3 also informed RUCO that it had gone for five years with no Environmental
4 Protection and Enhancement Act ("EPEA") or Water Act prosecutions,
5 enforcement orders, environmental protection orders, administrative
6 penalties or warning letters in connection with its Edmonton facilities.
7 EPCOR also stated that it had no outstanding notices of investigations
8 from Alberta Environment under the aforementioned EPEA or Water Act.

9
10 In summary, after a review of all of the information obtained to date, both
11 formally and informally, RUCO has concluded that EPCOR is a fit and
12 proper entity that has both the experience and expertise to own and
13 operate a regulated water provider in Arizona.

14
15 Q. Does RUCO believe that EPCOR will insure that AAWC is staffed with
16 qualified individuals that will continue to provide safe, reasonable and
17 adequate service to the Company's ratepayers?

18 A. Yes. In responses to RUCO data requests 1.7 and 1.8, Mr. McKee
19 reiterated the Company's position that it expects to retain AAWC's current
20 employees after the Transaction closes and that EPCOR USA will take the
21 necessary steps to ensure that employees are performing their duties
22 appropriately in order to maintain responsible operations. Mr. McKee also
23 responded that EPCOR USA intends to retain Mr. Paul Townsley, the

1 current president of AAWC, who will continue to lead the Company's
2 operations after the Transaction is completed.

3

4 Q. Will AAWC ratepayers continue to receive customer service and support
5 on a 24/7 basis after the Transaction is completed?

6 A. In his response to RUCO data request 1.9, Mr. McKee stated that EPCOR
7 USA will continue to provide customer service and support on a 24/7 basis
8 and will work with American Water and the Company to insure that
9 customer service is not negatively impacted during the transition in
10 ownership.

11

12 Q. Will the Proposed Reorganization result in any major changes related to
13 central office or shared services costs?

14 A. In response to RUCO data request 1.10, Mr. McKee stated that if the
15 Proposed Reorganization is approved by the Commission, future shared
16 services costs (which RUCO labels "central office costs") are expected to
17 be comparable to current shared services costs and certainly will not
18 impair AAWC's financial status.

19

20 Q. So it is RUCO's belief that the Proposed Reorganization meets the
21 standard set forth in A.A.C. R14-2-803(C)?

22 A. Yes. For all of the reasons cited above, RUCO believes that the Proposed
23 Reorganization meets the standard set forth in A.A.C. R14-2-803(C).

1 Q. Should the Commission only consider the financial perspective when
2 evaluating the public interest?

3 A. No. The Commission has addressed the public interest standard in prior
4 reorganization applications. For example, in Decision No. 67454, The
5 Matter of the Reorganization of UniSource Energy Corporation, the
6 Commission stated the following:

7 "The duty to act in the public interest requires this Commission to
8 consider all factors implicated in this transaction and not solely the
9 impairment of the financial status or services of the public service
10 corporation. A careful analysis of potential risks is particularly crucial
11 when the proposed transaction can impact the public health and safety."
12

13 The Commission further noted that the public interest inquiry is "broad"
14 and that the Commission should consider all of the available evidence in
15 any given case.⁸ RUCO believes that, in addition to the financial
16 perspective that RUCO has offered, the Commission should also consider
17 applying the same standard and broad level of scrutiny in this case.
18

19 Q. Does RUCO believe that the Proposed Reorganization meets the broader
20 public interest standard?

21 A. Yes. RUCO believes that the Proposed Reorganization meets the
22 broader public interest standard after evaluating the information provided
23 by EPCOR USA on (1) its ability to provide water that meets required
24 quality standards; (2) its expectation to retain AAWC's current employees
25 after the Transaction closes and to take the necessary steps to ensure
26 that employees are performing their duties appropriately in order to

⁸ Decision No. 67454 pages 28 thru 29.

1 maintain responsible operations; and, (3) its commitment to continue to
2 provide customer service and support on a 24/7 basis.

3
4 **RECOMMENDATION**

5 Q. What is RUCO's recommendation regarding the Proposed
6 Reorganization?

7 A. RUCO recommends that the Commission approve the Proposed
8 Reorganization subject to two conditions that relate to the recovery of
9 possible acquisition costs or an acquisition adjustment or premium. First,
10 RUCO recommends that no costs resulting from the sale of AAWC from
11 American Water to EPCOR USA be passed on to ratepayers in a future
12 rate case proceeding. Second, RUCO recommends that no acquisition
13 adjustment or premium related to the sale of AAWC from American Water
14 to EPCOR USA be allowed recovery in a future rate case proceeding.

15
16 Q. Why is RUCO recommending that no costs resulting from the sale of
17 AAWC from American Water to EPCOR USA be passed on to ratepayers
18 in a future rate case proceeding?

19 A. RUCO believes that ratepayers should not have to bear any acquisition
20 related costs that may be incurred in order to integrate AAWC into
21 EPCOR or EPCOR USA's system for accounting, billing or other business
22 related functions. RUCO believes that these types of costs should be
23 borne by the acquiring entity or its ultimate parent. RUCO recommended

1 the same condition in both the Qwest/CenturyLink merger and the EPCOR
2 USA/Chaparral City Water Company acquisition that were both approved
3 by the Commission.
4

5 Q. Why is RUCO recommending that no acquisition adjustment or premium
6 related to the sale of AAWC from American Water to EPCOR USA be
7 allowed recovery in a future rate case proceeding?

8 A. RUCO believes that ratepayers should not have to pay for the difference
9 between the price EPCOR pays for AAWC and the book value of the
10 Company at the time of the acquisition. RUCO's recommendation is
11 consistent with the Commission's past practice of not allowing acquisition
12 premiums in rate base.
13

14 Q. Are these the same conditions that RUCO recommended, and the
15 Commission approved in the recent case involving EPCOR USA's
16 acquisition of Chaparral City Water Company?

17 A. Yes. The Commission adopted both of these recommendations in
18 Decision No. 72259, dated April 7, 2011, which approved the sale of
19 Chaparral City Water Company from American States Water Company to
20 EPCOR USA.
21

22 ...
23

1 Q. Do you believe that the Commission has the authority to approve the
2 Proposed Reorganization on a conditional basis?

3 A. Yes. While I am not a lawyer and I am not expressing a legal opinion, I
4 believe that the Commission has the constitutional authority to approve a
5 merger or acquisition on certain conditions in order to insure that
6 ratepayers are not harmed as a result of a transaction such as the
7 Proposed Reorganization being sought in this proceeding.
8

9 Q. Can you cite other ACC decisions in which the Commission approved a
10 request for a merger or acquisition on a conditional basis?

11 A. Yes. The two best examples are Decision No. 72259, which I've cited
12 several times in this testimony, and Decision No. 62909, dated September
13 18, 2000, in which the Commission approved the sale of Chaparral City
14 Water Company from MCO Properties, Inc. to American States Water
15 Company on condition that Chaparral City water Company's customers be
16 held harmless from any obligation to pay judgments arising out of future
17 lawsuits against California subsidiaries of American States Water
18 Company.
19

20 Q. Does your silence on any of the issues or positions addressed in the
21 Company's Application constitute acceptance?

22 A. No, it does not.
23

- 1 Q. Does this conclude your direct testimony on the Proposed Reorganization
2 of AAWC?
3 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase
Arizona-American Water Company	W-01303A-09-0343	Rate Increase
Bella Vista Water Company	W-02465A-09-0411 et al.	Rate Increase
Chaparral City Water Company	W-02113A-10-0309	Reorganization
Qwest Communications International	T-04190A-10-0194 et al.	Merger
CenturyLink, Inc.	T-04190A-10-0194 et al.	Merger
Goodman Water Company	W-02500A-10-0382	Rate Increase
Southwest Gas Corporation	G-01551A-10-0458	Rate Increase
Arizona-American Water Company	W-01303A-10-0448	Rate Increase



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
ARIZONA-AMERICAN WATER COMPANY)
FOR A WAIVER UNDER A.A.C. R14-2-806 OR,)
IN THE ALTERNATIVE, NOTICE OF INTENT)
TO REORGANIZE UNDER A.A.C. R14-2-803.)

DOCKET NO. W-01303A-11-0101

DIRECT

TESTIMONY

OF

DOROTHY HAINS, P.E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 22, 2011

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY	2
ENGINEERING EVALUATIONS	3
WATER	4
WASTEWATER.....	5
CONCLUSIONS.....	6

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. By whom and in what position are you employed?**

7 A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a
8 Utilities Engineer - Water/Wastewater in the Utilities Division.

9
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Commission since January 1998.

12
13 **Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?**

14 A. My main responsibilities are to inspect, investigate and evaluate water and wastewater
15 systems. This includes obtaining data, preparing reconstruction cost new and/or original
16 cost studies, cost of service studies and investigative reports, interpreting rules and
17 regulations, and to suggest corrective action and provide technical recommendations on
18 water and wastewater system deficiencies. I also provide written and oral testimony in
19 rate cases and other cases before the Commission.

20
21 **Q. How many companies have you analyzed for the Utilities Division?**

22 A. I have analyzed more than 90 companies fulfilling these various responsibilities for
23 Utilities Division Staff ("Staff").

24
25 **Q. Have you previously testified before this Commission?**

26 A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of
3 Science degree in Civil Engineering.

4
5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time,
8 I was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for
9 approximately five years.

10
11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the
13 American Society of Civil Engineering ("ASCE"), American Water Works Association
14 ("AWWA") and Arizona Water & Pollution Control Association ("AWPCA").

15
16 **PURPOSE OF TESTIMONY**

17 **Q. What was your assignment in this rate proceeding?**

18 A. My assignment was to provide Staff's engineering evaluation of the subject Arizona-
19 American Water Company ("Company") sale and transfer proceeding. The Company's
20 eight water districts including Anthem Water District ("Anthem"), Agua Fria Water
21 District ("Agua Fria"), Havasu Water District ("Havas"), Mohave Water District
22 ("Mohave Water"), Paradise Valley Water District ("Paradise Valley"), Sun City West
23 Water District ("Sun City West"), Sun City Water District ("Sun City") and Tubac Water
24 District ("Tubac") and four wastewater districts including Anthem and Agua Fria
25 Wastewater District ("Anthem/Agua Fria Wastewater"), Sun City Wastewater District
26 ("Sun City Wastewater"), Sun City West Wastewater District ("Sun City West

1 Wastewater”) and Mohave Wastewater District (“Mohave Wastewater”) are listed in the
2 application. Commission approval of the application would result in the transfer of
3 ownership and control of the Arizona-American Water Company operations listed above
4 to EPCOR Water (USA) Inc.
5

6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. To present the findings of Staff’s engineering evaluation of the operations of the
8 Company’s Anthem Water, Agua Fria Water, Havasu Water, Mohave Water, Paradise
9 Valley Water, Sun City Water, Sun City West Water, Tubac Water, Anthem/Agua Fria
10 Wastewater, Sun City Wastewater, Sun City West Wastewater and Mohave Wastewater.
11 The findings are contained in below.
12

13 **ENGINEERING EVALUATIONS**

14 **Q. Would you briefly describe what was involved in preparing your engineering**
15 **evaluation for this proceeding?**

16 A. After reviewing the application and the Company’s Responses to Staff Data Requests, I
17 contacted the Maricopa County Department of Environmental Services (“MCDES”) and
18 the Arizona Department of Environmental Quality (“ADEQ”) to verify if the water
19 systems were in compliance with the Safe Drinking Water Act water quality requirements.
20 Further, I contacted ADEQ to determine if the wastewater systems were in compliance
21 with the ADEQ wastewater discharge permit requirements. I also contacted the Arizona
22 Department of Water Resources (“ADWR”) to verify if the water systems were in
23 compliance with the ADWR’s requirements governing water providers. Based on all the
24 above, I prepared the tables below to summarize the results of my evaluation.
25

WATER

Q. Do the Company's water systems comply with monitoring and reporting requirements and the water quality standards of the Safe Drinking Water Act?

A. Yes. The table below summarizes the Water Quality Compliance Status reports issued by ADEQ and MCDES.

Water District	System Name	PWS #	Compliance Report Issued Date	Is the System in compliance with ADEQ or MCDES?
Anthem	Anthem	07-504	4/15/11	yes
Sun City	Sun City	07-099	4/19/11	yes
Sun City	Tierra Del Rio	07-532	4/15/11	yes
Sun City West	Sun City West	07-150	4/15/11	yes
Paradise Valley	Paradise Valley	07-056	2/18/11	yes
Auga Fria	Auga Fria	07-695	4/25/11	yes
Auga Fria	Northeast Auga Fria	07-531	11/16/10	yes
Tubac	Tubac	12-001	4/7/11	yes
Havasus	Lake Havasu	08-015	10/4/10	yes
Mohave	Mohave	08-032	10/4/10	yes
Mohave	Camp Mohave	08-037	11/22/10	yes
Mohave	Lake Mohave Highlands	08-062	11/22/10	yes
Mohave	Desert Foothills	08-137	11/23/10	yes
Mohave	Rio Vista	08-333	11/22/10	yes
Mohave	Arizona Gateway	08-163	11/23/10	yes

Q. Do the Company's water systems comply with ADWR requirements?

A. Yes. The table below summarizes the ADWR reports

Water District	Is the System in AMA area?	Name of the AMA	ADWR #	Compliance Report Issued Date	Is the System in compliance with ADWR Monitoring & Reporting requirements?
Anthem	Yes	Phoenix	91-000269.0000	3/22/11	Yes
Sun City	Yes	Phoenix	56-002038.0000	3/22/11	Yes
Sun City West	Yes	Phoenix	56-002039.0000	3/22/11	Yes
Paradise Valley	Yes	Phoenix	56-002027.0000	3/22/11	Yes
Auga Fria	Yes	Phoenix	55-002012.0000	12/9/10	Yes
Tubac	Yes	Santa Cruz	56-000042.0000	3/22/11	Yes
Havasus	No	None	91-000313.0000	12/9/10	Yes
Mohave	No	None	N/A	12/9/10	Yes

1 **Q. Please summarize the physical conditions of the water systems.**

2 A. All water systems have adequate well production and storage capacities to serve existing
3 customers and projected growth for a five-year planning horizon. All water systems are
4 generally operating in an efficient manner and delivering adequate and reliable service to
5 customers.

6
7 **WASTEWATER**

8 **Q. Do the Company's wastewater systems comply with the ADEQ permit**
9 **requirements?**

10 A. Yes. The table below summarizes the Compliance reports issued by ADEQ.

11

Wastewater District	Name of the Treatment Plant ("TP") treating District sewage	Inventory #	Permit #	Compliance Report Issued Date	Is system in compliance with ADEQ permit requirements?
Anthem	Anthem Water Campus TP	103259	23639 & 36218	4/12/11	Yes
Sun City	Tolleson Wastewater TP**	100339	32823 & 14886	4/12/11	No
Sun City West	Northwest Valley Regional Water Reclamation Plant	102667	27576 & 36946	4/12/11	Yes
Auga Fria	Russell Ranch Wastewater TP	105299	26497 & 36953	4/12/11	Yes
Agua Fria	Verrado Wastewater TP	105202	27395 & 36947	4/12/11	Yes
Agua Fria (Corte Bella)	Northwest Valley Regional Water Reclamation Plant	102667	27576 & 36946	4/12/11	Yes
Mohave	Wishing Well Wastewater TP	102181	30157 & 36948	4/12/11	Yes
Mohave (Arizona Gateway)	Arizona Gateway Wastewater TP	105010	31789 & 36949	4/12/11	Yes

12 **Note: The Company does not own or operate Tolleson TP; this plant is owned and operated by the City
13 of Tolleson.

14

1 **Q. Please summarize the physical conditions of the wastewater systems.**

2 A. All systems have adequate treatment capacity to serve existing customers and projected
3 growth for a five-year planning horizon. All wastewater systems are generally operating
4 in an efficient manner and delivering adequate and reliable service to customers.

5
6 **Q. Is the Company in compliance with Commission requirements?**

7 A. Yes. A check of the Commission's Utilities Division Compliance Database indicates
8 there are no delinquent compliance items for the Company.

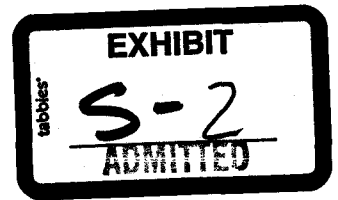
9
10 **CONCLUSIONS**

11 **Q. What are Staff's conclusions as a result of its engineering evaluation of the**
12 **Company?**

13 A. Staff concludes that the Company is in compliance with the regulatory agencies that
14 oversee its operations in Arizona. The Company's water and wastewater systems have
15 adequate capacity. The Company's water and wastewater systems are generally operating
16 in an efficient manner and delivering safe, adequate and reliable service to customers.

17
18 **Q. Does this conclude your Direct Testimony?**

19 A. Yes, it does.



BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
ARIZONA-AMERICAN WATER COMPANY)
FOR A WAIVER UNDER A.A.C. R14-2-806)
OR, IN THE ALTERNATIVE, NOTICE OF)
INTENT TO REORGANIZE UNDER A.A.C.)
R14-2-803)

DOCKET NO. W-01303A-11-0101

DIRECT

TESTIMONY

OF

GERALD W. BECKER

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 22, 2011

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
GENERAL INFORMATION	2
NOTICE OF INTENT TO REORGANIZE	4
FINANCIAL ASPECTS	5
OPERATIONAL ASPECTS	6
AUTHORIZATION TO INCUR LONG-TERM DEBT	7
ACQUISITION ADJUSTMENT	9
CONCLUSION	12
RECOMMENDATIONS	12

EXECUTIVE SUMMARY
ARIZONA-AMERICAN WATER COMPANY, INC.
DOCKET NO. W-01303A-11-0101

Arizona American Water Company, Inc. ("AAW" or "Company") is an Arizona public service corporation and a Class "A" water and wastewater utility. AAW provides water and wastewater utility services in 17 communities located in Maricopa, Mohave, and Santa Cruz Counties in the State of Arizona. At the present time, AAW provides water services to approximately 106,600 customers and wastewater services to approximately 51,700 customers, of which the vast majority are residential customers.

AAW filed an application with the Arizona Corporation Commission ("Commission") on March 2, 2011, for a waiver of the requirements of the public utilities holding companies and affiliated interests rules (Arizona Administrative Code ("A.A.C.") R14-2-801, *et seq.*) that may be allowed under A.A.C. R14-2-806. In the alternative, if the Commission denies the waiver, the Company requests that the Commission consider this same application a notice of intent to reorganize under A.A.C. R14-2-803. On May 20, 2011, AAW docketed notice to withdraw its original request for a waiver under A.A.C. R14-2-806.

The reorganization involves the purchase of AAW from its current parent, American Water Works Company, Inc. ("American Water"), a Delaware corporation, by EPCOR Water (USA), Inc. ("EPCOR USA"), a Delaware corporation, along with the restructuring and assumption of certain debts. American Water will sell all of the issued and outstanding shares of AAW common stock to EPCOR USA, and EPCOR USA (or a third party) will offer debt replacements for the debt presently owed by the Company to its affiliate American Water Capital Corp. Also, EPCOR USA would indirectly assume the debts presently owed by AAW to unaffiliated parties. The application further specifies that the application should also be treated as a request for authorization to incur debt as might be required under Arizona statutes.

Staff recommends approval of the reorganization subject to certain conditions as follows:

1. Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff recommends that the Commission put the Company on notice that it, and its affiliates, must comply fully with Staff in any future inquiries or requests for information and/or documents regarding any transactions that Staff determines might have some effect, direct or indirect, on the Company's operational or financial health.
2. That the Commission order AAW to refrain from seeking an acquisition adjustment due to this transaction in any future rate case.
3. That the Commission order AAW to maintain its quality of service, including, but not limited to, that the number of service complaints should not increase, that the response time to service complaints should not increase, and that service interruptions should not increase as a result of the reorganization.

4. That within 90 days of finalizing the terms of any replacement long-term debt for current short-term debt, AAW be ordered to file the details of the replacement long-term debt and that Staff be ordered to file a Staff Report and Recommendation for Commission consideration regarding the replacement long-term debt.
5. That the Commission order AAW to file an application to request authorization to incur long-term debt in the event that AAW incurs any additional debt or any debt with its affiliates including but not limited to EPCOR, the parent company of EPCOR USA, the terms of which are not substantially identical to those reflected in existing debt between AAW and American Water Capital Corp.
6. That the Commission authorize the assumption of debt with unaffiliated parties to reflect amounts and terms that are identical to those that presently exist between AAW and those unaffiliated parties.
7. That the Commission require the Company to maintain its equity position to be at least its present level of 38.0 percent of its total capitalization.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, and prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

1 **Q. What is the scope of your testimony in this case?**

2 A. The purpose of my testimony in this proceeding is to present Staff's position and
3 recommendations regarding the application of Arizona-American Water Company, Inc.
4 ("AAW" or "Company"). With its initial filing, AAW requested a waiver of the
5 requirements of the public utilities holding companies and affiliated interests rules
6 (Arizona Administrative Code ("A.A.C.") R14-2-801, *et seq.*) ("Rules") pursuant to the
7 provisions of A.A.C. R14-2-806 and a request for authorization to incur long-term debt.
8 The Company later withdrew its request for a waiver and this resulted in the Company's
9 application being a notice of intent to reorganize and a request for authorization to incur
10 long-term debt.

11
12 **Q. What is the basis of your recommendations?**

13 A. I performed a financial analysis of the application and the Company's responses to various
14 inquiries and data requests. Staff's recommendations are made to ensure that the
15 Company's rate payers are unharmed by the reorganization and that the transaction is in
16 the public interest.

17
18 **GENERAL INFORMATION**

19 **Q. Please briefly describe AAW.**

20 A. AAW is an Arizona public service corporation and a Class "A" water and wastewater
21 utility. AAW provides water and wastewater utility services in 17 communities located in
22 Maricopa, Mohave, and Santa Cruz Counties in the State of Arizona. At the present time,
23 AAW provides water services to approximately 106,600 customers and wastewater
24 services to approximately 51,700 customers, of which the vast majority are residential
25 customers.

26

1 **Q. Please describe the reorganization that is the subject of this filing.**

2 A. The reorganization involves the purchase of AAW from its current parent, American
3 Water Works Company, Inc. ("American Water"), a Delaware corporation, by EPCOR
4 Water (USA), Inc. ("EPCOR USA"), a Delaware corporation, along with the restructuring
5 of debt with affiliates, and assumption of certain debts with third parties. American Water
6 will sell all of the issued and outstanding shares of AAW common stock to EPCOR USA
7 and EPCOR USA (or a third party) will offer debt replacements for the debt presently
8 owed by the Company to its affiliate American Water Capital Corp. ("Capital Corp.").
9 The application further specifies that it should also be treated as a request for authorization
10 to incur debt as might be required under Arizona statutes.

11
12 According to the public announcement of the purchase, the purchase price for AAW is
13 approximately U.S. \$470,000,000. Staff found nothing in the confidential stock purchase
14 agreement between American Water and EPCOR USA to contradict this information.

15
16 Staff has determined that the purchase price is in excess of the net book value of the
17 Company's assets and liabilities. AAW's application does not indicate whether EPCOR
18 USA will seek an acquisition adjustment in any future rate case. However, representatives
19 of EPCOR have indicated that it will not seek an acquisition adjustment.

20
21 **Q. Are there any other entities that would or could be directly, or indirectly, involved**
22 **with AAW after the merger?**

23 A. Yes, there are. EPCOR USA is an indirect wholly-owned subsidiary of EPCOR Utilities,
24 Inc. ("EPCOR"). EPCOR is a municipally-owned Canadian corporation and holding
25 company that builds, owns, and operates water and wastewater treatment facilities and
26 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is

1 governed by an independent Board of Directors, and its sole shareholder is the City of
2 Edmonton, Alberta, Canada.

3
4 EPCOR is the parent company of a number of subsidiary companies. Its primary
5 operating utility subsidiaries are EPCOR Water Services, Inc., EPCOR Distribution &
6 Transmission, Inc., EPCOR Energy Alberta, Inc., and EPCOR Power Development
7 Corporation. The Company's application includes further descriptions of these EPCOR
8 subsidiaries.

9
10 **NOTICE OF INTENT TO REORGANIZE**

11 **Q. Did AAW file a notice of intent to reorganize?**

12 A. Yes, AAW's original application for a waiver of the Rules also contained a notice of
13 intent to reorganize, in case the Commission determined that a waiver was not appropriate.
14 However, on May 20, 2011, AAW docketed notice to withdraw its original request for a
15 waiver under A.A.C. R14-2-806.

16
17 **Q. Please explain the importance of the Affiliated Interest Rules.**

18 A. The Rules cover the Commission's review of transactions between public utilities and
19 affiliates. In general, A.A.C R14-2-804 states that, in order to transact business with an
20 affiliate, the utility must agree to provide the Commission with access to the books and
21 records of the affiliate to investigate transactions between the two. The utility is also
22 obligated to maintain necessary accounting records regarding transactions with each
23 affiliate. The Rules were created so that the Commission could be made aware of
24 transactions and other occurrences at the holding company level that may affect the
25 regulated utility's operations or financial well-being – even if indirectly. In the past, when
26 dealing with certain other utilities with corporate parents, Staff has sometimes experienced

1 difficulties obtaining information at the parent level that Staff believed was necessary for a
2 complete analysis. Staff notes this concern now in hopes of avoiding any such delays or
3 lack of cooperation in this and any future proceedings the Commission may have with the
4 Company.

5
6 **Q. What is Staff's recommendation?**

7 A. Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff
8 recommends that the Commission put the Company on notice that it, and its affiliates,
9 must comply fully with Staff in any future inquiries or requests for information and/or
10 documents regarding any transactions that Staff determines might have some effect, direct
11 or indirect, on the Company's operational or financial health.

12
13 **Q. Has Staff experienced any such problems in this case?**

14 A. No.

15
16 **FINANCIAL ASPECTS**

17 **Q. What does the Commission consider when evaluating a Notice?**

18 A. Under A.A.C. R14-2-803(C), "[T]he Commission may reject the proposal, if it determines
19 that it would impair the financial status of the public utility, otherwise prevent it from
20 attracting capital at fair and reasonable terms, or impair the ability of the public utility to
21 provide safe, reasonable, and adequate service."

22
23 **Q. Did Staff perform a financial comparison of American Water versus EPCOR USA?**

24 A. Staff found that EPCOR USA, established in 2009, had very little useful financial
25 information available. Alternatively, Staff reviewed financial information on EPCOR and
26 compared that information to American Water. That comparison indicates that EPCOR is

1 smaller than American Water based on a comparison of each entity's equity values.
2 American Water's equity of \$4.13 billion compares with EPCOR's equity of \$2.47 billion.
3 Additionally, Staff found that EPCOR has the same bond rating as American Water.
4

5 **Q. Does Staff believe the subject merger could impair the Company's financial status?**

6 A. No, Staff did not find any evidence that the Company's financial status would be harmed
7 or impaired.
8

9 **Q. Does Staff believe that this merger might improve AAW's financial status?**

10 A. No, the Company has already indicated that there will be no change to AAW after the
11 merger. Realistically, AAW's financial status can only be measured in a rate case where it
12 indicates/estimates its cost of debt, cost of equity, and capital structure that lead to the cost
13 of capital to be considered at that time. There is no indication in the subject application
14 that any of these items may be improved or changed from the previously-approved cost of
15 capital that supports the Company's current rates.
16

17 **OPERATIONAL ASPECTS**

18 **Q. Does Staff believe that this merger might improve or impair AAW's operational**
19 **status?**

20 A. The Company's application indicates that AAW will continue to operate as a public
21 service corporation subject to the Commission's authority and jurisdiction and that AAW
22 will continue to provide safe, reliable and adequate service to customers in its service
23 territory. The only anticipated change is that EPCOR USA plans to change the name of
24 the utility since AAW will no longer be part of the American Water system. EPCOR USA
25 will notify the Commission following the determination of a new name for AAW.
26

1 **Q. Has Staff reviewed the customer service policies and how they might change?**

2 A. In response to RUCO data request 1.9, EPCOR USA states that customer service will
3 remain the same. This may include entering into a short-term transitional service
4 agreement with American Water. EPCOR USA also stated that its goal is to develop a
5 United States-based solution that meets or exceeds current service levels.

6
7 **Q. Does Staff see any problems in customer service due to the distance between Arizona**
8 **and Edmonton?**

9 A. No. Staff believes that distance should not be a problem. In the short term, all calls would
10 continue to be taken in the same way as they are now.

11
12 **Q. What does Staff recommend?**

13 A. Staff recommends that the Company shall maintain its quality of service, including, but
14 not limited to, that the number of service complaints should not increase, that the response
15 time to service complaints should not increase, and that service interruptions should not
16 increase as a result of the reorganization.

17
18 **AUTHORIZATION TO INCUR LONG-TERM DEBT**

19 **Q. Does the application include a request for authorization to incur long-term debt?**

20 A. Yes. The application states that it requests authorization to incur long-term debt, but it
21 lacks the specific information customarily included in a financing application. The
22 application indicates that EPCOR, the parent company of EPCOR USA, will replace the
23 debt presently extended by Capital Corp., the financing subsidiary of American Water and
24 an affiliate of the Company. The application further states: "To the extent the
25 replacement of the existing [Capital Corp.] debt with new debt extended by EPCOR (or a

1 third party) requires Commission approval under A.R.S. § 40-301 and § 40-302, Arizona-
2 American requests such approval in this proceeding.”¹

3
4 **Q. Has Staff reviewed the request for authorization to incur long-term debt?**

5 A. Yes. Staff is concerned that the authorization requested lacks specificity regarding the
6 amount, terms and use of the proceeds from the loan. A.R.S. § 40-302(A) requires:

7
8 *Before a public service corporation issues stocks and stock certificates,*
9 *bonds, notes and other evidences of indebtedness, it shall first secure from*
10 *the commission an order authorizing such issue and stating the amount*
11 *thereof, the purposes to which the issue or proceeds thereof are to be*
12 *applied, and that, in the opinion of the commission, the issue is reasonably*
13 *necessary or appropriate for the purposes specified in the order, pursuant*
14 *to section 40-301, and that, except as otherwise permitted in the order,*
15 *such purposes are not, wholly or in part, reasonably chargeable to*
16 *operative expenses or to income.*

17
18 **Q. Does Staff have any concerns regarding the request for authorization to incur long-**
19 **term debt?**

20 A. Yes. In response to a RUCO data request, the Company indicates that as of the date of the
21 response, the Company was indebted for approximately \$253.1 million, of which
22 approximately \$233.0 million was owed to its affiliate, Capital Corp., and \$20.1 million
23 was owed to third parties. The Company’s response also discloses specific interest rates
24 and maturity dates associated with its indebtedness.

25
26 Staff is not concerned with the assumption of debt with unaffiliated entities at identical
27 terms. However, Staff would be concerned if any long-term debt extended by affiliates of
28 EPCOR USA, or a third party, for the replacement of debt that presently exists between
29 AAW and Capital Corp. were not at substantially identical terms.

¹Application filed March 2, 2011, at 8:20-23.

1 On July 20, 2011, Staff, EPCOR, AAW, and counsel for the parties had a telephonic
2 meeting to attempt to define the specific terms of any new debt proposed to be incurred by
3 AAW with EPCOR. The proposal may include the terms of possible long-term debt to
4 replace approximately \$57.6 million of short-term debt² presently held by Capital Corp.
5 As of the date of this testimony, EPCOR has not yet provided the specific terms and
6 amounts of replacement debt instruments. Therefore, Staff requests that at such time as
7 the details of such replacement debt are known that the Company provide such
8 information to Staff and that Staff have an opportunity to review and file
9 recommendations for Commission consideration.

10
11 **Q. What does Staff recommend?**

12 A. Staff recommends that any debt incurred by EPCOR USA to replace the debt that
13 presently exists between AAW and Capital Corp should reflect substantially the same
14 terms that presently exist. If EPCOR USA should need either additional debt or debt
15 reflecting terms or amounts that differ from the terms and amounts of existing debt, then it
16 should file a separate application to request approval to incur long-term debt.

17
18 **ACQUISITION ADJUSTMENT**

19 **Q. Does the application include any indication of plans to request an acquisition**
20 **adjustment or any associated ratemaking treatment?**

21 A. No.
22

² On November 18, 2010, AAW filed an application for approval to incur \$50 million of long-term debt to replace its short-term debt with long-term debt (Docket No. WS-01303A-10-0470). On January 26, 2011, AAW requested, via e-mail to Staff, that processing of the case be suspended due to the Company's announcement regarding its acquisition by EPCOR.

1 **Q. Has Staff determined whether there is an acquisition premium?**

2 A. Yes. In response to Staff data request 4.1.1, the Company estimates that the proposed
3 transaction will result in payment of an acquisition premium of \$20.6 million for the two
4 systems, AAW and New Mexico American Water Company. The acquisition premium is
5 based on the sales price of \$470 million, less the book value of the equity of \$172.3
6 million as of December 31, 2010, less the debt of \$277.1 million also as of December 31,
7 2010, for an estimated acquisition premium of \$20.6 million. The estimated acquisition
8 premium of \$20.6 million relates to the purchase of both AAW and New Mexico
9 American Water Company.

10
11 In an additional response to the Staff data request, the Company indicated the
12 apportionment of the purchase price, the book values, and the acquisition premiums by
13 state as of December 31, 2010, and Staff has calculated the acquisition premiums as a
14 percentage of total debt and equity, as indicated below:

15

16 (000's)	Arizona	New Mexico	Total
17 Purchase Price	\$430,000	\$40,000	\$470,000
18 Book Values			
19 Equity	\$156,292	\$16,046	\$172,338
20 Debt	\$255,025	\$21,993	\$277,018
21 Total Debt and Equity	\$411,317	\$38,039	\$449,356
22 Acquisition Premium	\$18,683	\$1,961	\$20,644
23 Acquisition Premium, as			
24 Percentage of Total Debt			
25 and Equity	4.54 %	5.16%	4.59%

26

27 **Q. Does Staff have any concerns regarding the estimated acquisition premium?**

28 A. Yes. Staff has reviewed the application and is unable to locate any discussion of an
29 acquisition adjustment or of the associated ratemaking treatment. However, in response to

1 a Staff data request, AAW indicates that it will not seek recovery of the acquisition
2 premium in Arizona or New Mexico.

3
4 **Q. Does Staff have any other comments regarding the acquisition premium?**

5 A. Yes. AAW provided its audited financial statements as of December 31, 2010, to Staff
6 under a Confidentiality Agreement. Staff notes that the Company's response to a Staff
7 request regarding its debt and equity amounts, as discussed above, was adequately
8 supported by certain debt and equity amounts reflected in its audited financial statements.
9 However, Staff also notes that the assets listed in the audited financial statements as of
10 December 31, 2010, include a net acquisition adjustment of approximately \$25.3 million
11 which relates to the acquisition by AAW from Citizens. The existing net acquisition
12 adjustment of \$25.3 million is supported by and reflected in the corresponding debt and/or
13 equity amounts reflected in the Company's capital structure as of December 31, 2010,
14 which, in turn, is one of the components considered in the calculation of a second
15 acquisition premium which may arise from the decision in this proceeding. For these
16 reasons, Staff recalculates the acquisition premium for the Arizona component of the
17 proposed transaction and increases it by \$25.3 million from \$18.683 million, as shown
18 above, to \$43.983 million, as shown below.

19
20 Arizona only: (000's)

21 Acquisition Premium, per Company (above)	\$18,683
22 Staff Adjustment	<u>\$25,300</u>
23 Acquisition Premium, as Recalculated by Staff	\$43,983

24
25 **Q. Does Staff have any other comments?**

26 A. Yes. In reviewing the above information, Staff calculates that the equity for AAW is 38.0
27 percent of the total debt and equity as of December 31, 2010.
28

1 **Q. What does Staff recommend?**

2 A. Staff recommends that any approval granted in this proceeding shall require that the
3 Company refrain from seeking an acquisition adjustment due to this transaction in any
4 future rate case. Staff further recommends that the Company continue to make progress
5 towards meeting a goal of 40 percent equity in its capital structure, that the proposed
6 transaction not impair the meeting of that goal, and that AAW maintain an equity position
7 of at least 38.0 percent of its capital structure.

8
9 **CONCLUSION**

10 **Q. What is Staff's conclusion?**

11 A. Staff concludes that, after the subject reorganization, no short-term changes, benefits, or
12 detriments will accrue to AAW. Staff also believes that no measurable long-term changes,
13 benefits, or detriments will accrue to AAW.

14
15 **RECOMMENDATIONS**

16 **Q. What are Staff's recommendations?**

17 A. Staff recommends approval of the requested reorganization, with the following conditions:

18
19 Since EPCOR USA is relatively new to Arizona and has a number of affiliates, Staff
20 recommends that the Commission put the Company on notice that it, and its affiliates,
21 must comply fully with Staff in any future inquiries or requests for information and/or
22 documents regarding any transactions that Staff determines might have some effect, direct
23 or indirect, on AAW's operational or financial health.

24
25 That the Commission order AAW to refrain from seeking an acquisition adjustment due to
26 this transaction in any future rate case.

1 That the Commission order AAW to maintain its quality of service, including, but not
2 limited to, that the number of service complaints should not increase, that the response
3 time to service complaints should not increase, and that service interruptions should not
4 increase as a result of the reorganization.

5
6 That within 90 days of finalizing the terms of any replacement long-term debt for current
7 short-term debt, AAW be ordered to file the details of the replacement long-term debt and
8 that Staff be ordered to file a Staff Report and Recommendation for Commission
9 consideration regarding the replacement long-term debt.

10
11 That the Commission order AAW to file an application to request authorization to incur
12 long-term debt in the event that AAW incurs any debt with its affiliates including but not
13 limited to EPCOR, the terms and principal amounts of which are not substantially
14 identical to those reflected in existing debt between AAW and American Water Capital
15 Corp.

16
17 That the Commission authorize the assumption of debt with unaffiliated parties to reflect
18 amounts and terms that are identical to those that presently exist between AAW and those
19 unaffiliated parties.

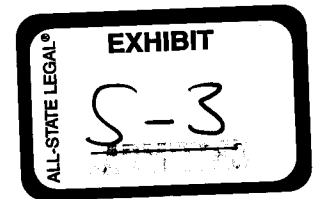
20
21 That the Commission require the Company to maintain its equity position to be at least its
22 present level of 38.0 percent of its total capitalization.

23
24 **Q. Does this conclude your Direct Testimony?**

25 **A.** Yes, it does.

COMPANY
DOCKET NO:

ARIZONA-AMERICAN WATER COMPANY
W-01303A-11-0101



Response provided by: Greg Barber
Title: Finance Director

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2.1

Q. Debt Replacements Please refer to lines 18 through 20 of page 8 of AAWC's Application which states the following: "As part of this transaction, at closing, EPCOR will replace the existing Arizona-American debt extended by American Water with debt extended by EPCOR under comparable terms ("Debt Replacements")." In regard to this statement, please provide an itemized list of the debt obligations that will be replaced by EPCOR at the time of the proposed transaction closes that includes the following information:

- (a) name of debt issuances/loans
- (b) name of lenders (if applicable)
- (c) maturity date of debt issuances/loans
- (d) stated interest rate on debt issuances/loans
- (e) original amount financed through debt issuances/loans
- (f) current balance on debt issuances/loans

COMPANY
DOCKET NO:

ARIZONA-AMERICAN WATER COMPANY
W-01303A-11-0101

A. See chart below for outstanding debt obligations.

	(a)	(b)	(c)	(d)	(e)	(f)
1.	5.39%Series A	Internal	12/21/2013	5.39%	\$24.7M	\$24.7M
2.	5.52% Series B	Internal	12/21/2016	5.52%	\$11.2M	\$11.2M
3.	5.62% Series C	Internal	12/21/2018	5.62%	\$123.1M	\$123.1M
4.	144A Bonds	Internal	10/15/2037	6.593%	\$16.45M	\$16.45M
5.	Short Term Debt	Internal	N/A	Approx. .40% to .79% based on actual and budgeted information for 2011	N/A	Approx. \$57.6M
6.	WIFA American Recovery and Reinvestment Loan	WIFA	11/1/2029	3.938%	\$839,726	\$809,219
7.	Tolleson Muni Refunding Bond (Guarantee by American Water)	Tolleson	5/1/2015	Variable	\$8.56M	\$8.56M
8.	Tax Exempt AMT Bonds Issued by the IDA of Maricopa, AZ	IDA	9/1/2028	5.25%	\$10.635M	\$10.635M

COMPANY
DOCKET NO:

ARIZONA-AMERICAN WATER COMPANY
W-01303A-11-0101

	(a)	(b)	(c)	(d)	(e)	(f)
9.	Neighborhood Installment Agreement-- Monterrey		8/1/2012	6.26%	\$114,503	\$15,712
10.	Neighborhood Installment Agreement-- Rosalee		8/1/2013	5.76%	\$80,891	\$11,668
11.	Neighborhood Installment Agreement-- TO Development		8/1/2015	7.18%	\$69,278	\$28,453
12.	Neighborhood Installment Agreement-- Montex		8/1/2015	7.18%	\$55,050	\$24,372